

THE BRITISH
'TAX-PAYERS'
RIGHTS



H. LLOYD REID

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*Having an Examination into The Principles of Taxation
(Revised)*

BY

H. LLOYD REID, F.S.S.



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GENERAL

PREFACE

IN a previous work—"The British Taxpayer and his Wrongs"—published in 1888 under the *nom de plume* of "Finance," I promised to bring out a second part dealing with the "Rights and Remedies" of tax-payers, showing that in Sociology, in Statecraft (or the Science of Government), and in Political Economy, there were many sound and well-known axioms or principles, which might serve as a safe basis on which to found an equitable and practical Tax System; and I proposed further to submit a scheme harmonising with those principles, to answer the objections raised against proposals of the kind, and to suggest means for gradually introducing the system with as little disturbance as possible to existing fiscal arrangements.

But examination of the more recent literature on the subject showed that new principles were affecting the social and political problems of the day; communistic doctrines are being advanced with little or no disguise, especially by German and Austrian economic writers, and legislation in some countries, our own amongst others, is responding in increasing degree to their influence.

The subject of Land Tenure and rapidly increasing rentals, for example, is becoming a great disturbing element; the state of tenants in Ireland, and the Crofter districts of Scotland, and the laws introduced in consequence, are opening the nation's eyes to the fact that our land system needs much reform in the interests of all. Doubtless much injustice has been suffered by Irish landlords from the new laws acting in such stringent, summary, and restless fashion, and needs redress, but the

English-speaking races are at last finding out what great and irresponsible powers land proprietors possess under our present system, and are realising that their native land is not equitably the absolute property of any so-called owner, or owners, but is more in the nature of a trust for the welfare of the present, and of the succeeding generations of their race. In the Australasian Colonies this is being practically recognised in their laws.

The altered conditions of these and other problems closely connected with Taxation had to be examined before dealing with my subject: this Land Tenure question, for instance, affecting taxation by neutralising much of the advantage derivable from our free trade system, or the modicum of it, we term "Free Trade." Economic and financial literature, in the form of books, magazines, Press articles and reviews, etc., British and Foreign, has also widely extended lately, needing constant attention to keep in touch with it. These studies chiefly account for the delay in issuing this volume; I have thought it best, therefore, to reserve the subject of the "British Tax-payers' Remedies" till the success of this part justifies its publication; the nature of my proposals may, however, be partly gathered from it.

Regarding the work itself, it was, in its inception, intended for the instruction of working men, earners of salaries and wages, and thus has rather taken the shape of a primer; financial experts and economists will therefore excuse the explanatory form of some of its sections, especially the definitions of politico-economic and fiscal terms.

The sections on Labour and its interests have perhaps gone beyond the absolute needs of my subject, but the importance of these matters, and their close relation to wealth-production principles, on which tax supply depends, must be my apology for dwelling on these subjects; certainly, the truest interests of the wage-paid classes are being much endangered by the short-sighted policy pursued by some of the Trade Unions leaders in their constant and unreasonable claims on employers. My

treatment in certain sections of the subject of Land and other Natural Wealth is also somewhat extensive, so essential does it appear that greater freedom regarding their use, and better arrangements for their tenure and public control, should be established for the national advantage, for all tax reforms must prove abortive if the absolute powers of land-owners over their tenants in respect of rack-renting, and other important matters, remain practically uncontrolled.

The Consumption, or Use, of Wealth is also treated at some length, for equitable and economic reforms in Public Expenditures are essential elements in reducing taxes and rates, and securing justice to all classes alike in a tax area. The attention of statesmen is now fully aroused to the urgent need of increased Public Expense, chiefly in the Naval and Military services, whilst, concurrently, Chancellors of the Exchequer have been noticing the shrinkage in our present tax sources, which makes it very doubtful whether they could bear the strain of a prolonged war with other great Powers. Those aware of the kind of recruits now entering the Army and Navy, and how largely increasing a proportion of them consists of mere lads, deficient in stamina, foresee future danger from this element of weakness unless remedies are promptly applied. Some experts advocate compulsory service, though its attendant evils, economic, social, and political, are notorious; others suggest economies in the services, but to effect these would take long, and be quite inadequate to meet this pressing and permanent need, even if supplemented by larger and more general contributions from the Colonies for imperial defence. An increase in the rates of pay of the rank and file sufficient to attract the proper class of men wanted seems the obvious and promptest remedy, but this means largely increased taxation, and increased injustice and dissatisfaction among the classes now supplying so large a proportion of the taxes raised. This growing need of increased taxation, coupled with the difficulty

in equitably distributing it under our present system, has been one among other reasons for bringing forward this work, suggesting a wider and more general source of supply.

In the United Kingdom, in past times, the legislation of the few in power too often showed but scant regard for the interests of the many; that position of affairs is changing, and the increasing political power of the masses is now threatening quite as injuriously the rights of capital, so necessary to be upheld for the general interests. As a nation we probably still enjoy more real and substantial freedom than any other community, but unless our Representative, our Land, and our Tax systems are reformed in some important points, we must soon expect to suffer from the tyranny of the many over the few, as seen in the political and social systems of the United States, of France, and even of our Australasian Colonies.

This growing political power of the masses, large numbers of whom in this Kingdom pay no direct taxes whatever to the State for the benefits enjoyed from Government and local government, is, it is to be feared, leading our representatives in parliamentary and local councils to listen too readily to demands inconsistent with the rights of others, these demands being sometimes preferred with more or less veiled threats or promises of future voting opposition or support. Unless some check be imposed on this irresponsible pressure, by associating, as in former times, Representation with Direct Taxation as a *sine quâ non*, the general community will assuredly suffer from the selfish interests of the many further invading the rights of the minority.

There seems a strong tendency here, as in other countries, to forget or ignore the old fundamental constitutional principles of just taxation. In pursuance of my plan, I have recalled public attention to them, so that even if the reforms here suggested by a comparatively unknown writer on finance pass unheeded, the publication of this work may not be entirely useless. From

long study of the subject, it appears to me that the British taxpayers' rights concerning equitable public and private taxation, and the just application of their contributions, are gradually being surrendered instead of being upheld and strengthened.

With the exception of some few remarks hostile to the principles and methods of Communism, political bias has been avoided in this work, and the authors and authorities quoted will be found to represent most political parties and schools of thought, Foreign and British. Justice has been my leading consideration in treating the subject, and practical convenience and economy follow next in order.

Regarding the translations of quotations from foreign works noticed herein, I may remark that when the translator's name is not given in the text, footnotes, or index, the translations are my own rendering of the passages.

THE AUTHOR.

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INTRODUCTORY QUOTATIONS

"Nos ad justitiam esse natos, neque opinione sed natura constitutum esse jus."
—CICERO.

"IN tributis œqualitatis maxima habenda ratio, quæ in eo potissimum versatur, ut par sit eorum ratio ac paria hi onera sentiant quorum in diversis rebus positæ sitæ que sunt opes."

—BOXHORN, "Institutiones Politicæ" (1663), Lib. i.-c. x. § 18, No. 9.
(*A Dutch writer quoted by Rau in his "Finanzwissenschaft."*)

"'Tis true Government cannot be supported without great charge ; and 'tis fit every one who enjoys his share of protection should pay out of his estate his proportion for the maintenance of it."

—JOHN LOCKE, "Essay on Government" (1694), chap. xi. § 140.

"IN nothing are wisdom and prudence more necessary than in regulating the taxes to be taken from the people."

—MONTESQUIEU, "Esprit des Lois" (1748).

THE revenue from taxation is "A portion which each subject contributes of his property in order to secure the remainder. The subject . . . when properly taxed, contributes only . . . some part of his property in order to enjoy the rest."

—"Blackstone's Commentaries" (1765), pp. 281-308.

(*Almost a literal translation of Montesquieu's definition in his "Esprit des Lois."*)

"THE taxes which now exist ought to be put on a satisfactory and honest footing, so that every man, and every description of property in its just proportion, may be called upon to support the burdens and necessities of the State."

—JOHN BRIGHT, *House of Commons*, 21st July 1859.

"THERE is something essentially mean and singularly cruel in the manner in which the taxation of this country has been, and is still levied. Our rich class is the richest in Europe, the administration is in its hands ; and a greater proportion of the heaviest taxation in the world is thrown upon the class possessing no property but its labour and its wages, than is the case in any other country."

—Letter from John Bright, M.P., to the "Birmingham Householders' Association," 10th October 1859.

"IN a relative proportion between capital and revenue one would be disposed to recognise the true basis of the ability of subjects to bear taxation."

—Translation of a Paragraph in M. Esquirol de Parieu's
"Traité des Impôts" (1866), chap. iv. p. 33.

"THE weightiest problem of our age is : How far the existing order of rights must be transformed in the interests of the suffering masses."

—Professor CARL A. Menger. Vienna, 1888.



THE BRITISH TAX-PAYERS' RIGHTS

§ 1.—Introductory

IN a previous work, "The British Tax-payers' Wrongs," I described in some detail the different forms of injustice—the wrongs—suffered by British Tax-, Rate-, and Tithe-Payers from the present methods of raising money for public purposes, the subject being illustrated by an analysis of each impost raised during a typical year, that of 1884-85, with remarks on our Taxation as an entire system.

§ 2.—Object of this Volume

IN this volume I seek to prove that, in general Sociology, Statecraft, or the science of Government, and Political Economy, there are many axioms, general principles, or maxims, to a large extent admitted and acted upon by statesmen, which might serve as sufficient and substantial bases on which to establish an equitable and practically sound scheme of imperial, provincial, and local Taxation; and I conclude by noticing certain leading tax principles of constitutional and administrative importance, selected from the writings or utterances of well-known statesmen, economists, and exponents of social

philosophy or science, and harmonising together, and therefore supplying the essential elements needed in establishing a science of Taxation, even though their authors or supporters differed respecting some of these principles. It has been my purpose to prove that these selected principles all tend to show that a tax on accumulated wealth is the true fiscal system.

§ 3.—The Science of Taxation in Relation with Statecraft, Economics, Ethics, Mathematics, and Logic

BUT though relying, as I have said, on the principles of the science of Political Economy to support my views, the right of Political Economy to be called a science has been disputed, and most ably, perhaps, by M. Comte and his school of thought; I have deemed it best, therefore, to explain in what sense I have so regarded it. The question is somewhat abstract or academic, though pertinent enough to my subject, for the general acceptance of Political Economy as a science to some extent guarantees the soundness of my arguments. I have therefore treated the matter in the form of a Memorandum, and placed it in the Appendix.¹

Accepting, then, Political Economy and its kindred sciences as branches of the very comprehensive science of Sociology, I will first state, in the briefest terms, the relations subsisting between Political Economy and Statecraft, Economics and Ethics (including Equity in the latter), relations even extending to Mathematics and Logic; it will then be seen how much they may affect the problems of Taxation in regard to the principles on which a community may most equitably, conveniently, and economically raise funds for governing itself, and apply them rightly.

The relations subsisting between Political Economy and its cognate sciences, and wealth and value of all kinds, natural, or the result of labour, wealth, material or immaterial, including

¹ Appendix A.

Nature's elements or forces in their various forms, may be stated thus :—

(1) The notation and measurement, when possible, of wealth and value should be based on distinct and accurate principles, of easy comprehension and practical application by all concerned.

(2) A wise economy should be exercised in the production of wealth and value, in their development and preservation or maintenance for future use.

(3) An equitable spirit (at once economic and politic) should be observed in their division, distribution, or sharing.

(4) The greatest freedom consistent with the general public interests should attend their exchange, transfer, circulation, and all other processes, operations, and instruments concerned therewith.

(5) A wise, far-seeing economy should be exercised in their consumption, use, or employment, and even in their apparent dissolution.

With regard to human beings—one form of Nature's instruments, elements, or forces, where ethical considerations especially apply :—

(6) Perfect liberty and freedom of thought, speech, action, and publication should be the right of every responsible subject or citizen, as far as such freedom is consistent with the rights of others, so that liberty may not degenerate into uncontrolled licence, or the depression or injury of others' rights or reputation.

(7) The natural rights over property, or the free power to hold, sell, use, consume, or transfer it, including with the latter the power of death-devolution, which Society assures and confirms to individuals, and associations of individuals, have corresponding responsibilities and liabilities attached to them, so that such rights may not degenerate into injustice, or the infringement of others' natural rights ; in short, that duties as well as rights attach to the holding, ownership, use, transfer, and devolution of property, public or private.

(8) That whilst the greatest *permanent* good of the greatest number should be the general object of Society, and of Government (its representative in certain things), the equitable rights

of subordinate classes, associations, and individuals should be respected in all matters as far as possible ; and where the common or general safety or advantage requires that private rights should be interfered with or sacrificed, this should be permitted only on production of good and sufficient cause and evidence before equitably constituted tribunals, that such interference or sacrifice *is* necessary (except in great emergencies demanding instant action), and ample compensation should be awarded to those whose private rights thus suffered for the general advantage. "The rights of each" would thus be "bounded by the equal rights of all."

The ultimate practical object of Political Economy in connection with its kindred sciences may then be summed up thus :— It seeks to secure the largest amount of the material, personal, and more refining or elevating benefits and enjoyments of life to each and all in a given community at the smallest possible cost of personal labour, self-sacrifice, discomfort, and of material wealth, though the proportional share of such advantages that each individual may obtain must largely depend on his or her own conduct, ability, faculties, and other internal or external circumstances or influences affected by the observance or neglect of the moral and physical laws imposed by the Creator on man and his environment.

That Political Economy is in close relation with these kindred sciences is undeniable, and the true economist, far from disputing their mutual influence and interdependence, maintains that they should act harmoniously along their entire lines of coincidence. The golden maxim, "Do unto others as you would they should do unto you" affects the problems of Political Economy as it does those of other departments of Sociology.

§ 4.—Method of Treatment

ACCEPTING and following in many respects the doctrine and economic methods of the late Professor Bonamy Price, of Professor Alfred Marshall, and of Monsieur Paul Leroy-Beaulieu—sound exponents, I venture to think, of the practical, the statistical, and the historical, or, more correctly speaking, the "inclusive," or "comprehensive" treatment of Political Economy

—I have found it necessary to retain perfect freedom in dealing with the subject of Taxation ; indeed, Professor Price, as far as I am aware, never publicly declared his views thereon at any length, nor as yet has Professor Marshall, I believe, and those of M. Leroy-Beaulieu seem at times to clash with his economic principles, so that I am forced to conclude that the problems of Taxation have not been successfully analysed by him.

As remarked in the first volume of this work, Political Economists are hopelessly at variance on these principles, even when agreeing on most other economic principles. This remarkable discordance has been noticed by several writers—for example, by Mr W. L. Sargant and General F. A. Walker among English writers. Believing that it partly arises from differences as to the relative importance of, and precise signification to be attached to, certain doctrines and terms used in the science, also variances touching the fundamental principles of Sociology, Statecraft, and Economics, and that these differences will continue till some organised method is adopted for reducing them to a common measure and significance, showing the discrepancies between economists' views of Wealth (national and private), Value, Capital, Income, Interest, Government's proper functions, etc., I have thought it advisable to notice some of these prior questions of Sociology, Statecraft, and Political Economy, and terms used in relation therewith, confining myself to those obviously affecting tax principles.

Under this division, then, and with the object just named, I shall first notice certain branches of general Sociology and Statecraft, or the science of Government, and next consider some particular subjects of Political Economy and Taxation under their most convenient general heads in the order shown in the Table of Contents.¹

I had best at once explain that when hereafter I use expressions such as "freely governed States," "communities with free institutions," and the like, I mean that they possess, as national rights, a legislative assembly, independent judges or law-courts, publicity respecting the acts and aims of the governing bodies, and amenability to justice of the executive for its public acts.

¹ *Ante*, pp. xi.-xv.

§ 5.—General Sociology and Statecraft; or, the Principles of Societies and their Government.

ARISTOTLE, who has been termed the founder of Moral and Economic Philosophy, assumed, as a first principle, that man, from his very nature, was created to live in association; that, as a gregarious animal, he could only properly exist in conjunction with others of his kind.¹

Men, from their community of nature and interests, are mutually dependent on each other, and, as the late Professor Bonamy Price observed—the opinion of that aggregate of human beings called “Society,” or the “State”—is from the very nature of human existence and its necessities the final arbiter in all questions between man and man. As Professor Sheldon Amos has remarked, it is now generally recognised that established political institutions are the result of a long series of actions and re-actions on each other of opinion and law.² A free state or society consists of individuals, of free associations of individuals, and of the government or administration. This last, being the supreme expression of the society’s united opinion, will, and power, all within its territories must obey the laws and regulations it imposes.

What, then, is the specific object of this association we call “the State?”

As M. Charles Ganilh has written: “Society or the State is not a profit-and-loss concern, or a total renunciation of each individual with all his rights for the general welfare, but simply an association to defend, guarantee, enlarge, and perfect at joint cost the enjoyment of individual attributes, acquirements, and possessions.”³

Each member has to surrender a portion of his private rights,

¹ See his “Politics,” book i. chap. ii. ; and book vii. chap. x.

² “Science of Politics” (1883).

³ “Essai sur le Revenu Public,” Charles Ganilh, Avocat, tome 1, pp. 217-18, of D. Boileau’s Translation. Lond. 1812.

liberty, and property for the general benefit of the whole community, and were any member fairly to estimate the relative advantages and disadvantages of such surrender, he would certainly find he gained immensely thereby. It is distinctly economical.

In societies, or states with free constitutions, every subject (with reservations in certain matters with regard to age, sex, mental efficiency, felons, paupers, etc.) is, in the eye of the law—which is presumably the embodiment of the society's will—entitled to equal personal rights, and equal personal liberty, so long as he respects the rights and liberties of his fellow-subjects, entitled to equal security against illegal injury to person or character, to equal free exercise of his industrial faculties and powers, and to their reward and satisfaction, with certain exceptions based on moral and physical grounds.

On the other hand, "Society," or "the State," and its representative in certain matters, "the Government," holds each subject liable to assist it in case of foreign invasion, rebellion, or other internal disturbance, liable to serve as juryman or witness in courts of justice or inquest, and, under certain other regulated conditions, to surrender a portion of his personal freedom, convenience, or ease, and estate for the interests of the general body or "Society."¹

So thoroughly recognised throughout British rule is the principle of each subject's equality before the supreme and other public tribunals, that a suitor, too poor or too ignorant to defend his interests properly in a civil or criminal court of justice, can claim the court's assistance, it having power to intervene on his behalf by appointing a counsel to aid him, thus placing him on a more equal footing with his pursuer or legal antagonist; and by other examples the practical equality of all British subjects before the various national tribunals can be shown.

Nor could any other measure of a subject's status and rights

¹ A further example of this equality in personal obligation for the common benefit formerly existed in this country in the liability imposed on every male adult to provide six days' labour on the public roads, which obligation remained in force till the year 1773. A similar law in France was revoked about the same time.

as a member of the general community be properly substituted. To attempt to gauge the net value of each citizen to the State in respect of his particular occupation, faculties, working powers, advantage to the nation, relative cost to the State, chance of prolonged life, etc., would of course be thoroughly futile, for there may reside in the undeveloped life of an infant, in its emerging character, talent, judgment, and energy, a potential value to its native land far exceeding that of hundreds or thousands of its fellow-citizens, though quite insusceptible at any time of exact estimation or measurement; or some patriot or statesman, with a long and useful career before him, may come under baleful influences, and change sound national policy for one of selfish ambition and aggrandisement, reducing his own value as a subject, and possibly that of thousands of his fellow-subjects; some industrious workman may become, in a brief period, and from causes quite within his own control, a besotted, dangerous character, worse than a mere incumbrance to the community; whilst, on the other hand, some mechanic or artisan, escaping by happy chance from uncongenial surroundings and occupations, may develop capacities in a wider sphere of action immensely valuable for the welfare and happiness of his fellow-countrymen.

Man, endowed by his Maker with free will, has ever proved how useless, how impossible it is to appraise his economic value. Only in the degraded condition of a slave—a mere chattel of another—has his assessment been approached, and even then his inherent free will has often asserted itself, and by suicide or other mode of escape from thralldom his power of annihilating all value in himself as the chattel or property of another has been evidenced.

The sense of personal security imparted to the individual members of a community from this principle of equality of personal rights, liberties, and opportunities, this “fraternal equality,” this “brotherhood in rights,” is undoubtedly one of the most valuable results of association.

To ensure and maintain this valuable equality in personal rights and liberty to all individuals and classes in a community, experience has taught men that it is necessary, and in the long run the most economic and effectual plan, to appoint

specially qualified persons to carry out these objects rather than to leave subjects to obtain their rights by private combination.

This office or function, however differently provided for as regards particular duties and spheres of action, comes under the general term of "Government," and the principles and laws which human experience has found best adapted for its establishment, maintenance, and regulation, are termed "Statecraft," or the "Science of Government."

§6.—The Proper Functions of Government

As Edmund Burke remarked: "Government is a contrivance of human wisdom to provide for human wants."

The functions of Government in civilised nations vary with the races inhabiting a country, their antecedent history and development, the physical character and surroundings of the region they dwell in, etc.; and there are usually three areas of power, however named, corresponding with *imperial or central*, *provincial*, and *local* government, though sometimes other distinct areas are created for particular or temporary purposes of collective action and control. However varied in respect of details, the main function and object of Government may be defined to be—the *general* protection and maintenance of the community's personal liberties, rights, and property, and as local government is approached, the more evident should it be that Government is an institution for the particular advantage of all in its area of influence.

Even in the cases of Poor-Relief and Primary Education this general principle is thought by many to hold good, for these services may be viewed as tending to the safety and welfare of all; but I will consider this and other debatable questions of the kind later on, under the head of Public Finance (§§. 45-46), and will here quote the opinions of many eminent economists, statesmen, and jurists, who have studied this problem of the proper sphere or functions of Government.

Sismondi has observed; "A nation is but a large society

which derives from its Government protection against evils internal and external, the regular administration of justice, and a variety of other benefits, without which the State could not subsist. Regular Government is even indispensable to the production of public wealth, as it alone affords that security of property which is the life of industry. In this view the necessary officers of Government cannot be considered as unproductive labourers, they might more properly be considered as a part of the fixed capital of a nation.”¹

Nassau Senior considered the essential business of Government was: “To protect the community against foreign and domestic violence and fraud, but that unfortunately Governments generally thought it their duty to give wealth besides security; not merely to enable subjects to produce or enjoy, but *what* to produce, and *how* to enjoy.”²

On the importance of establishing certainty as to security of property, Jeremy Bentham wrote:³ “It is the security of property that has overcome the aversion of man from labour, that has given him the empire of the earth, that has given him a fixed and permanent residence, that has implanted in his breast the love of his country and posterity. To enjoy immediately, to enjoy without labour, is the natural inclination of every man. This inclination must be restrained, for its obvious tendency is to arm all those who have nothing against those who have something. The law which restrains this inclination and which secures to every individual the quiet enjoyment of the fruits of his industry is the most splendid achievement of legislative wisdom, the noblest triumph of which humanity has to boast.”

M. Gandillot says: “The safety of the people is the supreme law of society.”⁴

M. F. Bastiat writes: “The law—which is coercion—cannot be usefully employed in any way except in repressing wrongs and maintaining rights. . . . It is the mission of the State to

¹ “Oxford Encyclopædia” (1828). Article—“Political Economy,” p. 619.

² “Cyclopædia Metropolitana” (1845). Article—“Political Economy.”

³ “Theory of Legislation” (1829), chap. ix.

⁴ “Essai sur la Science des Finances,” par R. Gandillot, p. 28. Paris, 1840.

maintain order, security, to make the persons and property of its subjects to be respected, to repress fraud and violence. As to services, so to speak, of an industrial kind, the rule is, that the State should undertake it if it results for the people as a whole, in an economy of forces; but the innumerable inconveniences caused by work being monopolised by the State should most religiously be included in such calculation."¹

The Hon. Amasa Walker, observing that the expenses of Governments vary with the character and circumstances of the people, lays it down as a political axiom that Government should undertake nothing which can be left to individual enterprise to do.²

John Stuart Mill's conception of the functions of Government somewhat differed. He wrote: "They are as comprehensive as those of the social union—consisting of all the good and all the immunity from evil which the existence of Government can be made directly or indirectly to bestow."³

But here he evidently includes all those social rights and remedies for wrongs, which are dealt with in the law courts, and paid for by the parties to an action by fees for professional services, and not simply the services of the administrative and judicial machinery of Government.⁴

But the broad course and tenor of British legislation till quite recent years has been opposed to public interference in all social matters, the functions of Government (imperial and local) being restricted to those services only which could not so conveniently, economically, and efficiently be discharged by individual or associated private enterprise, either with or without State or local Government control.

No doubt there have been occasional instances of legislation opposed to these principles, involving the particular Taxation

¹ "Œuvres de Bastiat," vol. iv. pp. 312, 520. Paris, 1860.

² "Science of Wealth." Boston, U.S., 1866.—The context shows that *public* as compared with *private* enterprise is here referred to, whether *individual* or *collective* private enterprise matters not.

³ "Principles of Political Economy," vol. ii. p. 393. Lond. 1865.

⁴ Mill, however, accepted as a sound general principle the doctrine of "Laissez-faire," to which I presently refer.—"Principles of Political Economy," book v. chap. xi. § 7.

of some classes for the especial advantage of other classes of the community, and we seem of late to be descending the slopes of State Socialism when the law is thus employed in sanctioning and defending injustice. As M. Bastiat has observed: "This is much more dangerous than injustice committed in defence of law, as it deadens the public conscience and weakens the moral sensibility of the people."¹

M. Sismondi and other writers of the Ethical School of Political Economy consider the protection of the poor and weak against the rich and powerful as far the most important duty of Government, it being the natural defender of the defenceless, the "representative of the permanent but tranquil interests of all against the temporary but impatient interests of each," and no doubt the administrative machinery of most modern civilised States is largely directed to this end.

"Experience," says Sismondi, "has made us sensible of the necessity of that guardian authority which we set up to prevent the sacrifice of large portions of the community to the progressive increase of a wealth from which they derive no advantage. This intervention is always necessary in order to correct the selfish calculations of an increase of product by the only truly national calculation of an increase of the enjoyments and comforts of the whole population."²

M. H. Passy considered it was the rich person who needed the most protection from the State, and got it. "It is not," he said, "the individuals themselves who cost much to protect, it is the wealth they enjoy. Among the offences which laws have to prevent or punish, there are very few which are not the result of coveting the goods of other people, and the more individuals possess, the more the State has to do to protect them from trespasses and spoliation."³

M. de Parieu also attached most importance to the function of Government in protecting property. He wrote: "The advantages, assured even to the person of the subject, are of small value if one take away this personality in the ownership of property which constitutes the sum of existence. What

¹ "Œuvres de Bastiat," p. 320. See also pp. 519-20 thereof. Paris, 1860.

² "Oxford Encyclopædia" (1828). "Political Economy," pp. 602-1.

³ "Dictionnaire de l'Économie Politique." Article—"Impôts," p. 901. Paris, 1852.

would life be worth to him who had not the necessary means of subsistence, and would it be worth the trouble of estimating the advantage gained from institutions for personal protection by a needy one having nothing to lose and everything to envy?"¹

Adam Smith considered the functions of the State to be:—

"(1) The protection of Society from the violence and invasion of other independent societies.

"(2) The protection as far as possible of every member of the society from the injustice or oppression of every other member of it.

"(3) The task of erecting and maintaining certain public works and public institutions, which it could never be for the interest of any individual, or small number of individuals, to erect and maintain, because the profit could never repay the expense to them, though it might frequently do much more than repay it to a great society."²

Referring to Government expenditure on justice, he pointed out: "That law and justice are needed almost entirely for the protection of wealth; that people may live together in Society with some tolerable degree of security, though there is no civil magistrate to protect them from the injustices caused by the passions of envy, malice, or resentment; but that avarice and ambition with the rich, and hatred of labour and love of present ease and enjoyment with the poor, are the passions which prompt to invade property—passions much more steady in their operation, and much more universal in their influence."²

And respecting civil Government, he further remarks: "So far as it is instituted for the security of property, it is in reality instituted for the defence of the rich against the poor, or of those who have some property against those who have none at all."²

M. Leroy-Beaulieu's views may be summed up thus: The chief objects of Government consist in (1) guarding against foreign aggression, and preserving peace and order among its subjects; (2) in providing those absolutely needful institutions

¹ "Traité des Impôts," p. 32. Paris, 1866.

² "Wealth of Nations" (edit. 1811), vol. iii. ; book v. pp. 69, 94, 95, 102.

which cannot be safely entrusted to individual or associated private enterprise; (3) in preserving the permanent interests and rights of the commonwealth; (4) in defining legal rights and responsibilities; (5) in protecting the weak, the infirm, minors, idiots, and others unable to protect themselves; concluding with the reflection that the State should be self-repressive and not ambitious to assume new functions. He also especially condemns State Socialism, and the interference of Government in directing commerce and industry by popular opinion, often incorrect, and in remedying inequalities in fortune.¹

Dr William Farr, F.S.S., etc., and a few other writers, though less explicitly, have noticed that protecting the public faith and honour of a nation in respect of faithfully discharging the obligations of the national debt, and other public engagements, and otherwise maintaining the high national character and traditions of the State, and preserving their continuity, is also an undoubted function of State Government.²

Comparing these views with those of other popularly known and recognised writers on the subject—Montesquieu, Hallam, etc.—much to the same effect, it may reasonably be concluded that the chief ends of Government consist in guarding physical and mental labour, ability and invention of all kinds, with their interests (including their reward and satisfaction) from oppression, fraud, neglect, and all descriptions of trespass and injustice on the part of others, whether wealthy or otherwise; in protecting owners of “wealth,” in all forms and degrees, from injustice, trespasses, fraud of every kind on the part of others, whether needy or otherwise; and in preserving the national patrimony, honour, and integrity. Government functions other than these may be generally said to be provided for by funds derived from such extraneous services, as, for instance, the Postal and Telegraphic revenues.

Efficient Government then should afford security, and assure justice to rich and poor alike, and in the form most useful to each, guarding the daily personal liberty and freedom of all

¹ “*Précis d’Économie Politique*,” pp. 354-55, 357. Paris, 1888.

² *Statistical Society Journal*, “The Equitable Taxation of Property,” p. 4. Lond. 1853.

classes and grades of labour from encroachments by the wealthy and powerful, or the unprincipled and needy ones of Society, and protecting the property and estates of all from the rapacity of the envious and unscrupulous, whether wealthy or needy.

And the benefit gained from Government appears too in a more distinctly economic form. The security it affords by means of its various institutions, including Law and Justice, adds to and maintains the *value* of the lives and labours, the faculties, possessions, and acquirements of all subject to its influence. In this respect, indeed, it acts in much the same way as private labour and enterprise do, and private institutions in their many developments. State institutions, however, are confined to matters of paramount importance, and need exceptional powers for proper administration, which cannot safely be entrusted to any inferior organisation.

In his "Essay on the English Constitution" (1873), Lord Russell put the matter thus: "The soldier who defends a house from robbers adds a value to it as truly as the painter who adorns it. The judge who places property in security by his decisions gives a value to that property for which the work of a hundred labourers is not equal. It is the regular authority of the law that confers a value on a house in Middlesex above one in Turkey. Who would lay out his capital in purchasing the fee-simple of the finest estate in Tartary?"

Mr Pollard Urquhart, quoting the above, added: "Security from foes external and internal, law, and order, are the true objects, and constitute the only legitimate cost of Government. They add as much to the value of all real property as the architects and tradesmen who build and embellish the houses, or the labourers who cultivate the land."¹

And not only does landed property gain increased value from wise and just laws, Government, and other social organisations, but all descriptions of material and immaterial wealth also, varying in extent of benefit with their more or less permanent nature. Wisely organised institutions of the kind develop and improve the physical and mental power and influence of a

¹ "Dialogues on 'Taxation,'" p. 27.

nation in much the same way as well-ordered regulations do those of a family, and like self-control does those of an individual; their enjoyments, and even their leisure and repose derive advantage and value therefrom, and all classes, rich and poor, learned and ignorant, powerful and dependent, alike share in these beneficial effects. Good Government, in short, tends to improve all values under its influence.

To defray the cost of these institutions for ensuring justice, liberty, and protection, and for maintaining values, free communities confer on their representative Governments the important *power of levying Taxation* from those governed, but subject to certain constitutional safeguards and restrictions, to be noticed when dealing with Public Finance, and the specific subject of Taxation. This power, in respect of subordinate areas and local affairs, is usually delegated by the supreme Government to representatives of those several smaller areas, but in practice as well as in theory it reserves to itself the right of resuming its full powers, and by various methods it retains more or less control over the action of the subordinate governing bodies, as I shall presently show.

§ 7.—“*Laissez-Faire*”

ADAM SMITH called the doctrine of “*Laissez-faire*” the simple and obvious principle of natural liberty. It sprang as a natural result from excessive State interference with private actions and transactions. The expression itself, Roscher narrates, came from the lips of Legendre, a French merchant, whom Colbert was consulting about certain projected laws for protecting commerce, the merchant advising in the widely applied words, “*Laissez-faire, laissez-passer.*”¹

Respecting the doctrine of “*Laissez-faire*,” the chief battlefield of so-called Individualists, Collectivists, Socialists, etc., I would venture to suggest that both Individualism and Collec-

¹ “Principles of Political Economy,” 1877, vol. i. Leipzig. Cliffe-Leslie in his Essays gave a different origin for the expression, but the above seems the more authentic.

tivism are useful and necessary for the healthful action of civilised communities, that their respective employment in larger or less degree simply depends on the peculiar circumstances of each case, that each are desirable in their proper spheres of activity and influence, and when allowed freely to act and re-act on each other, they help to correct undue and injurious influences of Government and other forms of collective action on the one side, and of individual or associated private competition and monopoly on the other.¹ Doubtless, certain causes hinder their free play, such as difficulties touching free access to land and other natural elements (the raw materials for labour), unjust Taxation, etc., but to remedy this we should attack those specific causes and not petulantly complain of individualism or competition. To commit all important social institutions to State administration seems the surest and speediest way of establishing a national despotism.

Bastiat has truly observed that political economists are generally opposed to Government intervention; they see all sorts of objections to it, a depression of liberty, of energy, and of foresight and individual experience, which are the most precious foundations of Society.²

Its uneconomic nature and tendencies have also to be considered, for personal credit or blame, and personal gain or loss do not come into such active play in Government as they do in private undertakings, stimulating enterprise, efficiency, economy, and perseverance, and enforcing the need of prudence and watchful control; and, further, such are the conditions and surroundings of the public service that the entry, continuous employment, promotion, and discharge of the officials are more open to favouritism, corruption, and jobbery; and inefficiency and indifference to the interests of the service are more likely to be disregarded or condoned in public than in private institutions, and with more injurious results.

¹ It is obvious, too, that associations, whether public, in the form of Governments, or private, like trade unions, companies, etc., co-operative or otherwise named, require their subjects or members to surrender a portion of their individual freedom of judgment, opinion, and action, and entrust it to the governing or managing body representing them, whatever its capacity for such office.

² "Œuvres de Bastiat," p. 519. Paris, 1860.

Professor H. Sidgwick has exhaustively described the dangers attending undue Government interference, but at too great length to quote here.¹

Accepting Amasa Walker's general axiom lately quoted, that "Government should undertake nothing which could be left to private enterprise to do," as the soundest principle on which statesmen can act, and adherence to which in the past has largely contributed to the renown gained by our own and most nations famous in the history of civilisation, developing self-help and personal capacity in all ranks of the community, besides yielding the many other advantages claimed by M. Bastiat and a host of other well-known social scientists, we may reasonably conclude that it would be a political and economic mistake to establish in this kingdom any new state, provincial, or local government administrative department, and that true economic policy rather points to the amalgamation of departments, the number of official Parliamentary chiefs being now much in excess of that found necessary in earlier times, causing corresponding disturbance in the constitutional balance and proportion of Government representatives in the two Houses of Parliament, and difficulties attending the election and re-election to the Lower House of these chiefs.

In new departments, incapacity, favouritism, jobbery, indolence, indifference to the public interest, red-tape and circumlocution, and many other evil influences are apt to find shelter and breeding places, whilst zeal and enterprise, invention and economy, energy and other salutary motive-powers are too frequently discouraged or suppressed, and this opinion has been formed from some experience of official life in Government and other financial offices.

¹ "Principles of Political Economy" (1887), pp. 414-19. He sums up the question of "Laissez-faire" thus: "The general presumption derived from abstract economic reasoning is not in favour of leaving industry wholly to private enterprise in any community which can be usefully taken as an ideal for guiding practical statesmanship, but, on the contrary, is in favour of supplementing and controlling such enterprise in various ways by the collective action of the community." Collectivism and Individualism are both regarded as salutary principles in their several spheres, being in fact mutual correctives in social organisations. Mr Sidgwick's views on the fundamental functions of Government (also stated in considerable detail) are valuable (pp. 420, etc.).

Private enterprise, tempered by public or State control in one or other of its various forms, such as State-appointed *ex officio*, or popularly elected or selected directors, controllers, etc.; State, provincial, or locally elected, selected, or appointed inspectors, auditors, etc.; official regulations governing the ordinary and general course of business action in new undertakings; the publication of reports, accounts, etc.; and the valuable criticism of a well-informed Public Press proves infinitely more effective and satisfactory than State administration, for the combined advantages of private and public action are thus gained without their usual drawbacks.

Certain departments of public service cannot now with safety be entrusted to any inferior organisation than that of the State, *e.g.* the army, the navy, the mint, justice, etc., though the first three of these were in early times, to a large extent, private undertakings, the two first being separately or conjointly brought into action when required by the Crown.

So far as the doctrine of "Laissez-faire" affects the question of British Taxation, it is evident that the central or supreme Government must necessarily intervene in such an important matter; but complete control being established over the action of the provincial and local governing bodies, the central tax department, with manifest advantage, devolves most of the duties of assessment and collection on the local bodies, reserving its control, however, in these matters also; but the central Government itself, in its administrative financial capacity and in its control, needs prompt and swift check and audit, functions exercised by permanent and independent officers of State, by the Parliamentary chiefs of the public departments, and, during the sessions of Parliament, by a Standing Parliamentary (Commons) Committee. The Treasury also controls generally the finance of the other public departments.

§ 8.—Moderate Centralisation of Government Powers Desirable

THAT a policy of prudent devolution of certain State powers to local bodies is preferable to one of State absorption of a large proportion of local Government powers, is best shown by a quotation from Professor Sheldon Amos's "Science of Politics."¹ Referring to methods of Government, he remarks that the word "centralisation" is used in two distinct senses :—

"(1) Merely to describe certain methods by which the central Government is brought into direct connection with all local authorities throughout the country, and is able to make its power felt to the utmost extremities of the land with the smallest loss of time or energy, occasioned by the interposition of intermediate agencies, and (2) arrangements by which the Government draws into its own hands so large a part of the direct forms of control and administration that local authorities have no free play."

The former method has usually been followed in British legislation, whilst French legislators have mostly favoured the latter.

§ 9.—Government by Majorities, and the Limits of Coercion

To what extent may a majority impose its will on a minority?

This question of coercion by a majority and its limitation is one of great importance in free communities with representative forms of Government, for, among other consequences, it may greatly affect the Taxation of subjects and particular classes of them. Differences will arise in course of time as to individual, corporate, provincial, and even more comprehensive rights, duties, liabilities, and privileges, which, with due regard to justice, cannot be always left to the decision of a mere majority of interested voters, for, otherwise, a reign of tyranny might soon prevail directly a needy, and perhaps unprincipled, majority

¹ p. 290.

discovered that it could enforce its will on, and invade the rights of, a wealthier minority, whose social, political, financial, religious, etc., views might, doubtless, often seem antagonistic to the interests of the majority.

This collision between *class* interests, or, as the common phrase now is—between the classes and the masses—has, as we learn from history, often led to disastrous results to the general community. Perhaps the most notable instance of this in modern times was the dispute between the Northern and Southern States of the great American Republic on the questions of the Customs Tariff, and the Right of Property in Slaves; a grave fault in their constitutional law provoked one of the most sanguinary of internecine wars, and led, as we all know, to a terrible waste of human life and property.

In free nations, with representative institutions, a basis or groundwork of laws defining the most vital and essential rights and liabilities of subjects becomes, in course of time, a practical necessity, and is established under such titles as National Codes, Constitutional Laws, Charters, Statutes of Rights, and other ways of expressing the familiar business term—Articles of Association.

As new conditions arise, legislative changes become needful to supply constitutional checks on, and limitations of, the power of certain individuals, associations, or classes; for ignorance of, or imperfect acquaintance with, the changed position of social problems, and oftentimes interested motives solely will influence majorities in councils, committees, or other depositories of power and control in a State, and lead to injustice towards other individuals or classes.

In the British Constitution we find such control existing in its most important forms in the sovereign power and rights—the two houses of Parliament—the Cabinet, the Judicial and other Committees of the Privy Council, the Appeal Courts, etc. In less extensive spheres of authority in some respects, we find the control of the judges, the comptroller and auditor-general, and other official chiefs of Government departments, certain royal commissioners, councils, etc.; and again, in more circumscribed areas of action, sheriffs, recorders, magistrates, justices, semi-judicial boards, overseers, guardians, coroners,

juries, and other controlling bodies and individuals. Our national constitution abounds with such salutary checks, this social machinery being the outcome of centuries of conflict between right and might, justice and injustice, wealth and poverty, by means of which conflicts and remedial checks the nation's liberties have gradually been secured and strengthened, and its individual and collective rights and freedom have "slowly broadened down from precedent to precedent" as knowledge, experience, and enthusiasm for humanity have spread through the community.

Nor must the more recently developed but important control exercised by public opinion be omitted, operating chiefly through the medium of the free Press in its various forms. Oftentimes, when official or other controlling influences have fallen short of, or altogether failed in, their purpose of checking abuses in some branch of our social organisation, the Press has swept down and sounded the alarm in no uncertain tones, and been the means of drawing public attention to the matter, of exposing the mischief at work, and often of suggesting the most practical remedy.¹ It is true the Press is to some extent governed by considerations of profit, but I believe these will usually be found moving in the same direction as the public advantage. The pulpit, the stage, the platform, and other ways of influencing and controlling public conduct and policy may also be named, but they all gain additional value from the publicity afforded by the Press.

National "Constitutional Codes" often prescribe, among other matters of primary importance, the leading principles on which Taxation for supplying funds for supporting the public services is to be imposed and assessed; sometimes the general character of the services for which they are to be applied is also defined. The advantage of including such matters in constitutional codes or statutes much depends on the obvious justness and

¹ The Press generally is here referred to, though some few irresponsible publications, by spreading false and injurious statements concerning public and private affairs, authorities, and dignitaries, may seem to call for some control over their unbridled licence; but it will usually be found that their area of influence is but limited, and that more harm than good would attend any attempts at censorship other than that exercised by the general body of the profession.

fitness of the fiscal and financial principles, their being restricted to guiding principles only, and not liable to change according to the exigencies of political or financial policy or the caprices of party Government.

One of the cardinal principles of constitutional Government found more or less developed in free States is, that those providing the funds to meet the cost of Government have the right of electing representatives to the legislative council, by whose judgment and decision such taxes are authorised, levied, expended, and altered, suspended or repealed, have the right to complete accounts of the receipt and expenditure of public moneys and other property acquired, of all liabilities incurred and assets held by the executive; and, further, have the right of control and audit of the receipt, expenditure, and balances of public property and liabilities thus disclosed, duly qualified officers being appointed for these purposes, and held responsible alone to such legislative council, and to the nation through it. In our country, concurrent with these, is the very important arrangement—for there is no direct law, I believe, on the subject—that initiation in matters of taxation and finance rests wholly in the power of the Ministry for the time being.

The respective limits of imperial, provincial, and more localised rights, liabilities, and responsibilities, defined more or less distinctly in general terms, are sometimes included in such fundamental laws. Drawn up with forethought and consideration, these statutes, or constitutional laws, have often supplied invaluable aid to statesmen and administrators in their efforts to secure order and economy in public finance. But unless confined to leading principles, frequent revision is invited, with the natural consequence—popular agitation, varying in degrees of violence with the importance and urgency of the reform demanded. Fundamental laws of the kind need security against impulsive change during times of political excitement by some sort of proviso—that their revision, suspension, or abolition be determined only after an interval of time sufficient for thorough examination of the law in question by a commission of experts, including any administrative chiefs concerned, and reports from the two legislative assemblies, with the further safeguard of a certain majority in the Lower House. Indeed, for some legis-

lative measures our present British procedure practically secures such ample consideration. In some foreign countries this object is attained by means of a "plebiscite," a "referendum," or other special appeal to the whole body of electors for their votes on the matter at issue, which procedure is also finding favour in our Australian Colonies.¹ But should not some limit to such references be fixed?

Touching the Franchise Act of 1867, let us hope we may never regretfully realise the fact that to have conferred equal representative powers in Parliamentary elections on all householders and lodgers, before safeguarding the rights and liabilities of the subject regarding Taxation and other important matters, was not only a dangerous but fatal experiment in British legislation. The late Lord Sherbrooke (Robert Lowe), during the debate on the measure in the Commons, showed how thoroughly he realised its dangerous tendency.

The British constitutional laws, in any codified form, are but few, and brief abstract and general in their character. Those embodied in the Statute of Rights are fair examples: the rest are, for the most part, isolated Acts, some long obsolete, though unrepealed. Whether their brevity is altogether an advantage has been questioned, but, as regards Taxation, more definite principles seem necessary, for the very nature and essence of our taxing system has changed since the times when rack-renting or private Taxation (sweating land-users) was deemed a punishable offence, and subjects were taxed "according to their means."

§ 10.—The Principles of Political Economy as affecting Taxation

POLITICAL Economy, closely concerned as it is with Taxation and its principles, shows us that human needs, desires, and aspirations are the springs or motive powers inciting to labour, industry, invention, enterprise, etc., and that from these needs, and these efforts to satisfy them, wealth and value, and our con-

¹ See "Australasian Democracy," by H. de R. Walker, p. 29, etc. Fisher Unwin, Lond. 1897.

ceptions regarding them, take shape and substance. Wealth, we soon begin to understand, is primarily the creation of the Almighty, man of himself creating no material objects, his power being limited merely to moving and removing matter, to transforming, transmitting, transporting it, and so placing it under more or less favourable conditions for Nature to act on it, or for it to re-act on the other elements of Nature; but man can and does create, improve and maintain, or impair and destroy *value* in objects, that is, *immediate practical value*. It will be observed that these terms, "Wealth" and "Value," are often used conjunctively by me; I do this to emphasise as much as possible this inseparable attribute of Wealth—Value—for it largely affects the principles of Taxation.

That a close adherence to the doctrines of Political Economy in the legislation and practical life of a nation conduces to a greater production of wealth, and renders it easier to levy Taxation, cannot be doubted; I shall only briefly dwell on this subject, directing my attention more to those economic principles distinctly affecting the science of Taxation, and the methods found most just, suitable, and economical for its proper assessment, levy, expenditure, etc.

§ II.—Wealth, in some of its Aspects

THE Earl of Lauderdale, in his "Enquiry into the Nature and Origin of Public Wealth,"¹ observed that "Wealth consists in the abundance of what is useful and delightful to man," his definition closely agreeing with those of the noted economists, Maréchal de Vauban (1707), and M. de Bois Guillebert (1707), and of M. Turgot (1771), the physiocrat economist.

Amasa Walker's (the American Economist) definition of Wealth, "All objects of value, no other," regards Wealth in its two aspects of "value in use" and "value in exchange." Bonamy Price and many other economists describe Wealth as an instrument, tool, or engine for attaining the various ends and purposes of mankind. Sir William Petty, Lauderdale, Leroy-

¹ Published in Edinburgh (1804).

Beaulieu and others, rather restrict this comparison to Wealth in the form of "Capital," though the logical necessity for the limitation is not quite apparent, as I shall presently show when noticing "Capital" in its leading forms. Lauderdale drew attention to the important distinction existing between "Public Wealth" and "Individual Riches," an essential difference recognised by several other economists.¹

It seems desirable first to examine the two great classes or categories into which Wealth and Value may be divided, and then it will be seen that a certain share of a nation's wealth must be accorded to the State, or governing power to provide for its particular charges, and the portion thus acquired by it is in some respects not as amenable to Taxation as the rest of the Public Wealth, and is assessable to it in a modified form.

A nation's real wealth is (1) the net balance of its advantages and disadvantages in respect of the races inhabiting it, their natural qualities and powers, mental and physical, the physical features of the country, its soil, sub-soil, climate, etc.; and (2) the net accumulated results of labour, invention, and exchange, belonging to it, or, in other words—its stock of exchangeable commodities and goods of all kinds.

The first class is bestowed by Nature on a nation and its successive generations as a trust to enjoy and maintain for future services; it cannot be materially increased by man's labour, though conquest and colonisation may enlarge a nation's territories.

The second class results from man's needs and desires and his efforts to supply them, leading him to co-operate with Nature's elements and forces, and with the accumulated results and profits of industry, invention, and exchange, preserved by abstinence and thrift, or economy in their use.

The first class I term "Natural, or Common-Wealth," the latter, "Individual and Associated Private Riches" or "The Products of Labour."

¹ Bastiat drew a distinction between "Effective Wealth" and "Relative Wealth," or "Private Riches"; Sir Egerton Brydges explained the distinctiveness of Riches as Exchangeable Wealth, with right of property in them.—See "The Pamphleteer" (1822), p. 487.

§ 12.—What Wealth is, and what it is not

BEFORE examining these two classes of Wealth more particularly, it will be well to observe of Wealth generally that, viewed alone, or in relation to its Taxation, it must be something real, actual, positive, not merely representative, contingent, conditional, or ideal. Hence national and other joint or individual debts, mortgages, bonds, bills, bank or other notes, money-orders, cheques, dock and other warrants, and all kinds of paper money and securities, and all transfer and credit documents, *are in no true sense Wealth or justly taxable as Wealth*, though there have been, and still are, apparently economists who view some of these as absolute Wealth. They are merely promises or engagements (however certain of fulfilment), contracts, directions, sometimes only counters or tallies, concerning or representing certain measured amounts of wealth and value, even though in many cases describing the payee, the payer, and the consideration given (much in the same way as bills of exchange or entries in ledger accounts), and even though payment is promised in metallic currency of legal value on a certain date and at a certain place.

Unlike bullion, or coin, these documentary forms of debt and credit have no *intrinsic* value, but simply indicate where that value may or should be, and sometimes in what form it exists; they are not absolute Wealth in themselves, however valid they may be as *claims* on the wealth of certain persons.¹

Wealth rightly amenable to, and assessable for public Taxation, must be actual, measurable, exchangeable, visible; to tax mere statements concerning Wealth, or symbols of it, certainly tends to the over-taxation of Wealth.²

¹ There is of course an *extrinsic* value in rare postage stamps and other curios, which I need not explain.

² Sismondi after asking, "What is Wealth?" and showing the unsubstantiality of much that is called Wealth, or Capital, observed: "It will be acknowledged that the mutual debts and credits of two individuals make no part of public Wealth, for they are two quantities, negative and positive, which balance each other. The public funds will also disappear, for they are credits of the lenders on the possessions of tax-payers; paper money also, for it is a promise to pay in money, or a mortgage on the precious metal in circulation."—"New Principles of Political Economy" (Sept. 1826), Translation, M. Mignet, p. 233.

§ 13.—Natural, or Common-Wealth

THE most indispensable kind of natural Wealth in a country consists in its physical and mental labourers of all ranks and conditions, who, without moral, intellectual, and other kinds of training, are but so much raw material like the other natural Wealth to be noticed. The adaptability of labourers to many different, as well as particular, descriptions of useful work, largely increases their value as Wealth, and the labour of teachers and learners is ever enhancing such values.

Another class comprises the soil and subsoil of a country, its fertility largely depending on the character of its soils, whilst its mines, quarries, and other extractive Wealth, furnish more or less valuable materials for labour and capital to realise by co-operation. The variety of such Wealth, and its applicability to many useful purposes, greatly increases the effectiveness of labour, and its value and reward.

A third group includes the physical conformation of a country and its coasts, its natural defensibility, command of water and water-power, natural harbours, and facilities for communication by land and water, all tending to economise or to dispense with labour, and add to its relative productiveness.

A fourth group represents the physical and meteorological stability (so to speak) of a country, its freedom from earthquakes, atmospheric disturbances, and other convulsions of Nature, its climate, temperature, salubrity, etc., offering more or less favourable conditions for labour and production. Other classes of this natural Wealth might be named, though, like heat, light, electricity, water supply, etc., they might find places in the four groups enumerated.

Two common characteristics distinguish this natural Wealth: (1) It cannot be increased by man's efforts, though its usefulness and value may; and (2) it is not susceptible, like individual and associated private riches are, of exact complete and exhaustive measurement and valuation. It can, indeed, be superficially measured like the land and water are, but directly it becomes capable of complete measurement and valuation, it

loses its elementary character and becomes private riches. The undeveloped coal in a mine, and the hewn coal taken from it, that can be weighed, measured, and valued at current prices, represent the difference between these primary fundamental classes of Wealth, and a nation's true interests largely depend on preserving a clear distinction between them, and preventing their being blended and confounded with each other. The true prairie value of land, its undeveloped or unimproved value, is ever an enigma, with its indefinite mining, game, fishing, etc. rights; and it is much the same with so-called developed land. Its use-value to certain persons, for certain purposes, for certain periods of time, and under certain conditions, is one method by which its sale-value is determined; sometimes the value of similar land, under as near as possible like circumstances, becomes the criterion, though the widest difference in value between the two sites may soon be developed.

In our own country the non-taxation of land values enhances such values which may be rapidly rising, unknown to the general public, till some demand for land reveals it. Many beneficial enterprises have been smothered by the excessive prices owners are thus enabled to cumulate and exact for their land or its use.

In regard to most of the elements referred to, the land, mines, quarries, foreshores, roadsteads, harbours, rivers, and navigable waters, etc. in Great Britain, the State, as supreme landlord, intervenes between owners and tenants with extreme moderation, the rights and privileges of owners being treated as almost absolute. Whether this has altogether tended to the best development of such Wealth may well be questioned, though some compensating advantages may be claimed. Probably in no other great civilised country are the permanent national rights in respect of the land and its mineral Wealth so little safeguarded and enforced. They of course exist, and are so far recognised in the right and power to tax such Wealth if needful for the public safety, despite the unconstitutional action in 1798, and later on, in reference to the Land Tax, whereby the yield of an important branch of legitimate revenue was gravely if not permanently impaired.

These national rights are also admitted in the recent inter-

ference with private contracts in Ireland and Scotland as to land rentals and rights, Irish tenants indeed claiming joint ownership in the soil, having in many cases, sometimes even in town properties, executed most of the improvements on the lands occupied, and done this simply as tenants, without payment by wages. The power of compelling sales of land at a fair valuation for railway construction and other public purposes affords another instance of public rights being superior to private ownership, though it may be observed that great pecuniary gains to private landowners have almost invariably attended such expropriations.

In many countries the sovereign right is shown in enforced registration of all landed properties and titles of ownership to them, with a corresponding system of registration fees, or of land taxes, sometimes both; in others—India for example—it mainly takes the form of State rent, its land-rents being an important item of revenue. Unquestionably the State has a right to prevent foreign powers acquiring landed property in its territories by purchase or otherwise, and in many civilised nations sales of mines to foreigners, and other alien rights over landed property, are prohibited.

The State Government—as representing the united rights and welfare of the entire community and its future generations—has an obvious interest in all transactions affecting this national inalienable Wealth, and it is evident that under certain contingencies, such as invasion by a hostile nation, or other grave emergency, the Government must be armed with powers and rights to occupy and use lands, superior to those of any landholder or body of landholders or landlords.

The British Government raises a very limited revenue from the land, mines, foreshores, rivers, and other natural Wealth of the country, limited in regard to its own domain as owner, and to the extent of its taxing areas, taxes, and tax-rates. No other important civilised State derives so small a percentage of its total revenue from these sources.¹

¹ “Mr Goschen, in his much-quoted Report on Local Government, in 1871, noticed that, of the total imperial Taxation in 1868, land in England paid only 5.28%; France 18.43%; Prussia 11.39%; Belgium 20.72%; Russia 11.21%; Austria, 17.54%; Hungary, 32.30%. From the increase in the Succession and

This results from centuries of legislation by Parliaments almost wholly representing landowners' interests, and from the irresponsible, uncontrolled power long exercised by the Crown over its share of the national land, instanced in great waste of the patrimony, notably during the Tudor and Stuart reigns.

The Crown, as a landed proprietor, is said now to compare favourably with the majority of private owners in regard to rack-renting, and has the reputation of being a reasonable landlord in other respects. But the State allows landed proprietors freely to "tax" the people in their use of the land and its mines, quarries, etc.;¹ and, further, landowners enjoy important and valuable rights and privileges from the State's exceptional intervention on their behalf—exceptional as regards reversionary rights on expiry of leases, etc., distress and hypothec, priority of claims as creditors, special privileges as to inheritance, power of entail, freedom from and reduced rates of Taxation (somewhat curtailed lately), qualification for certain offices, voting powers, etc., as detailed by the late Dr. J. Thorold Rogers.²

Estate Duties, and the enlarged scope and rates of the new Estate Duties (1894-95), landowners probably now pay a larger percentage of their total Taxation on property of the kind. Compare also Sir R. Giffen's views on British taxes on land, showing how very moderate they really are ("Essays in Finance" (1880), pp. 240-48). Professor Bastable, however, has calculated that land, U.K., pays, in imperial and local taxes and tithes, as much as £15,000,000, but he has evidently not allowed, or sufficiently allowed, in imperial taxes, and in local rates, for "capital" invested in land and erections on it, and much local and imperial Taxation is ultimately recovered in increased rents, premiums, and forfeitures of houses, etc. See "Public Finance," pp. 385-86, by C. F. Bastable, LL.D., F.S.S., etc. Lond. 1892.

¹ In earlier times in England one of the duties of the sheriffs was to prevent the rich and powerful landlords oppressing their tenants by rack-renting, and such-like unjust exactions, which then were viewed as trespasses, and punishable as offences (Madox, "History of the Exchequer" (1708), vol. i.). If the power still exists, we may very safely conclude it is never exercised now, nor do the sheriffs seem in any way held accountable to the Exchequer in such respects. In the old Mosaic legislation, provision to check such practices was made by reversion of forfeited lands to their original owners after certain terms, etc., though the Jewish lawyers seem to have evaded these laws in course of time.

² "Local Taxation," by J. E. T. Rogers. Article in "*Statistical Society Journal*" (1870), pp. 253-55.

As regards these natural elements representing so large a portion of a country's wealth, the jurisprudence of most European nations regards the proprietary right over this Wealth as conditional rather than absolute.¹ This fundamental principle no doubt has often been obscured by legal enactments, the more absolute private right to property invested in, and on the soil having been confounded with, or converted into, absolute private right to the soil itself. In our own country, the most eminent jurists and authorities on constitutional law have again and again held that the *conditional* nature of freehold rights over land was unquestionable, and distinctly recognised by the law, and that the character of its tenure was rather that of continuous but conditional exclusive use, than of absolute proprietorship.² Undoubtedly, manorial rights over land have become far more absolute and stringent during the present century, and the idea of the lord of a manor being a trustee of the "folks'" common rights in a district is scarcely recognised now, and under various pleas and devices, by

¹ Sir Henry Maine—probably the highest authority on Land Tenures and Land Taxes, having studied these subjects in India, the widest school for acquiring practical experience therein—distinctly traversed the right of private ownership in land (*Village Communities* (1871), etc.) See also Joshua Williams, on "Real Property," p. 18; Sir F. Pollock, "Land Laws," p. 12; De Coulanges', "Origin of Property in Land," p. 113; also J. S. Mill, Thorold Rogers, Dr Andrews, M. Garnier, Froude, the historian, Professor Nicholson, etc., on the subject. Herbert Spencer, our greatest social philosophic writer, has also proved, with inexorable logic, that "equity sternly commands that the theory of the co-heirship of all men to the soil" (which he thinks is consistent with the highest civilisation) "should be embodied in fact, however difficult it may be" (see chap. ix. of his "Social Statics," edit. 1850 to 1870). His work, "Political Institutions" (1882), also shows that he still held that view, for, writing of the progress in emancipating slavery, he observes: "Similarly, at a stage still more advanced, it may be that private ownership of land will disappear." His reasons for shrinking from his original principles seem wholly inadequate (see his "Principles of Ethics" (1891), part iv.—"Justice"). Possibly, as the chief apostle of Individualism, he felt that collective or State land-owning was opposed to this principle, but surely it is consistent with individual *holdings*, and certainly is more consistent with natural equity than is individual land-owning as often practised in the United Kingdom.

² Herbert Spencer freely admitted this. One of the conditions imposed on owners of land in our country for many centuries of its history was the obligation to provide for national and local defence when needed, which special liability has been allowed to lapse without any special tax or charge upon the owners being imposed in its stead except the Land Tax, so soon sterilised by Parliament.

Enclosure Acts, and more direct confiscations, successive generations have gradually been ousted from their grazing, fuel, fishing, and other rights and privileges (rights of way, for instance) in the "folk" or common lands, leading naturally to further infringements of public rights in course of time.

In connection with this natural Wealth, two important economic facts need notice—the growing exodus of labour and capital from British agriculture and pastoral lands, and the increased imports of agricultural, pastoral, and other land products mostly producible of equal or better quality by British home labour.

Fact 1. Hundreds of thousands of acres of fine productive soil are lying untilled, untended, and gradually deteriorating, whilst hundreds of thousands of able, willing labourers are wanting work, and also deteriorating, lacking the healthful mental and physical stimulus and energies imparted by remunerative and congenial occupation.¹ Here are two of the most important kinds of national Wealth, capable, if in co-operation with Capital, of creating infinite values in health, happiness, and material Wealth, but at present worse than useless owing to some defects in social and economic arrangements. Capital, at the same time, is leaving agricultural lands, and, where immovable, is fast deteriorating in vacated holdings.

Fact 2. Neighbouring and distant nations now are pouring into our ports corn, flour, live and dead meat, cheese, butter, eggs, poultry, and divers kinds of farm, garden, etc., produce, in the form of food, and raw and more or less manufactured vegetable and animal materials, to the annual value of nearly £300,000,000, a large proportion of which imports are successfully competing with home produce of like kinds, despite the cost of freights, light, and port dues, etc., imposed on them.²

These imports, it is true, represent corresponding exports of Wealth from our shores, together with freights and other charges

¹ Sir George Staunton, describing the land system of China, remarked that lands suffered to remain uncultivated escheat to the province; and, going back to classic times, Pliny, referring to the Roman land system, remarked that even ill-cultivated lands drew upon their owners the reprobation of the censor—"Agrum male colere censorium probum"—proving the importance attached by these great imperial powers to the regular and proper culture of the public lands.

² See Board of Trade Returns of Imports for year ended 31st December 1896.

recoverable directly or indirectly from consignees abroad, etc., but we are to a disproportionate extent parting with Wealth that cannot be reproduced—coal, metals, and metal goods in ships, machinery, etc., the raw material of which is ever becoming more expensive and difficult to obtain, and are receiving from abroad chiefly food and other articles, mostly reproducible products necessary to sustain our industrial life and labour ; at the same time, we are devoting less labour every year to healthful agricultural and countryside occupations, thus becoming more dependent on foreigners for our vital needs, and are engaging more exclusively in the unhealthy, exhausting, and dangerous businesses of town, mine, and factory life, and other developments of machine or mechanical industry. Allowing for exports of food, an excessive proportion of the nation's food is now imported.

British labour seems thus changing its distinctive character, and as this continues, will be less able to supply the grand, muscular material from which British armies and navies have for centuries been best recruited, viz. an agricultural population, dealing with nature and its products in health-giving, country life.

Is not too absolute private ownership over the land in large measure answerable for these results ? The system operates thus : There being no check on the cupidity of some owners, their selfish interests impel them to raise their rentals to the extreme limits possible. These rents unduly raise the cost of British products and manufactures, leading to the importation of foreign goods at favourably competing prices. British labour, in many industries, thus becomes severely handicapped, obtains lower profits and wages, and in time is driven out of employment, and foreign produce and manufactures, embodying lower rent and wage charges, are imported here, supplying what British labour could and should produce.

General F. Walker has observed : " It is certainly true that economic rent tends to increase with the growth of wealth and population, and that thus a larger and larger share of the product of industry tends to pass into the hands of the owners of land, not because they have done more for Society, but because Society has greater need of that which they control." ¹

¹ See his "Lessons on Political Economy." Lond. 1890.

There are, no doubt, other economic causes contributing to the extinction or decay of some of our national industries, such as want of technical education and training of workmen, excessive wages, etc., exacted by trade unions, labour strikes injuring and preventing contracts, and, notably, a fiscal system, imposing no taxes on many imports receiving general and local protection, whose owners should contribute to the cost of such protection. Foreign ships and cargoes contribute but little towards local port dues and other charges, thus further aiding foreign competition in low freight rates, and forcing down British produce prices. The rack-renting, so freely permitted by our land system, will, however, be found a most important factor in our agricultural and industrial decadence, more especially in urban districts. This is a matter of deep national importance, not to be considered solely from an economic point of view. To maintain our leading commercial position as a nation, we should be able to raise at home sufficient food and other products to leave us less dependent than now on foreign imports of the kind, a large proportion of which are necessities of life; emergencies of war, famine, etc., may make this dependence most perilous to our interests, and the suggestion of Mr Yerburch, M.P., and others, that there should be a national reserve of bread-stuffs, comes quite within the range of practical politics, and the principle applies to other necessities of life.

Experience has taught nations that some degree of security of tenure, or undisturbed use and occupation of this natural Wealth, is necessary for social and economic reasons.

As Sismondi has remarked: "The proprietorship of the soil is one of those few beneficial monopolies which it is for the interest of all to guarantee, a happy usurpation, without which no one would run the risk of cultivating the ground, and the art of husbandry would be lost. Nevertheless, it is a concession on the part of Society, not a natural right, for there are numerous nations that recognise no such law of appropriation in respect of the soil, and where all are compelled to adopt the life of shepherds, the land ought to be the common right of all. The very end of such appropriation is the general good; the terms of the implied concessions are, that Society shall, on the whole,

be the gainer, for the protection it affords to the occupant of the soil withdrawn for the purposes of cultivation. It is for the advantage of the poor, as much as of the rich, that the proprietor of the land should be thus secured in his possession, but Society, which confers, or at least which legitimates the grant, has a right to attach those conditions to it which enter into the very spirit of the concession. The interests of Society, and those of the proprietor may possibly be at variance. The former always require that the land should be made to yield the greatest possible amount of gross produce; the latter that it should afford the best revenue."¹

The word "revenue," as here used, must be taken in its widest sense, and mean immaterial as well as material income, advantages, and enjoyments.

It appears to me that the problem of—How most prudently but effectually to obtain for the general welfare more public or national control over the land, mines, and other natural Wealth in the Kingdom in regard to their employment and uses, without too suddenly and unduly interfering with the private rights of owners—should be approached by two forms of enquiry.

(1) What particular circumstances, or what special events and occasions, would justify private individuals and associations claiming, as tenants, occupiers, or users of these natural elements, the intervention of local or State authorities between themselves and their landlords; and what the circumstances and occasions that would justify local and State intervention on behalf of individual and collective, and local and national rights, privileges, and welfare?

(2) What local and State authorities, judicial councils, or courts of law should be entrusted with such power of intervention to protect individual and collective local and national rights, etc., what limits should be placed on their powers of intervention, and what controlling agencies should be provided to check their proceedings and decisions, to whom owners or holders, and tenants or occupiers of land, etc., or claimants for tenancy and occupation might appeal if aggrieved by such decisions?

¹ See "Oxford Encyclopædia," 1828; Article—"Political Economy," pp. 603-5.

How far vestries and municipalities, county councils, local Government central boards, county courts, land courts specially constituted for such purposes, and higher State powers may safely be allowed to intervene in, or decide upon, questions of tenure and use of land, etc., of fair rental for its use, and other matters, such as compensation for capital invested and sunk, etc., is fairly debatable, but one reform seems obvious, that much of the local land, etc. business, now carried before private committees in Parliament, with great expense for counsels' and witnesses' attendance, touching its projected public and private rights, uses, and employment, should be transacted in the localities (districts, counties, towns, etc.), chiefly concerned therewith. This, wherever and whenever found possible, would be a highly beneficial form of Home Rule, relieving Parliament, local bodies, and private individuals of much onerous and expensive work.

Respecting the different schemes propounded for effecting Land-Tenure Reform, most of them are based on confiscatory principles, ignoring even the equitable rights of owners of land redeemed from Land Tax. The "Land Nationalisation Society," however, whose scheme seems more practical than the rest, distinctly recognises the justice of compensating expropriated landowners.¹

The advantages of Land Nationalisation, and especially the extent to which it could be at once carried out as a practical policy, may be very easily over-rated; immense values in capital and labour have in many cases been invested and sunk in lands, mines, etc., and though much of these values gradually decays and passes away from various causes, owners naturally require some substantial return for surrendering their rights and privileges in respect of the land itself, whether purchased, inherited, the gift of the Crown, or otherwise, matters not, as long as their title to it had been legally admitted.

The progress of Land Nationalisation must necessarily be slow and gradual at first, if the methods employed are con-

¹ Its object, as set forth in its monthly organ, "*Land and Labour*," is: "To restore the Land to the People, and the People to the Land."

sistent with equity; compensation and capital to work the land would have to be provided by land banks, land bonds, and other financial contrivances, public or private. It would further have to be supplemented for some time by a tax on land-values, in place of the present Land Tax, but such tax would have to be very moderate, and as far as possible proportional to the cost of the public institutions and services provided for securing to land, mine, etc. owners their continuous rights and privileges over, and use and advantage from, this natural raw material; moreover, all tax-redeemed lands are equitably entitled to exemption from such new tax for a term of years equal to the number of years' rental for which the freeholds would respectively sell at the time such new tax was imposed.

This tax, the provision of properly constituted land courts representing the State or common interests, and the local collective and individual interests of landlords and tenants, a gradual conversion of private ownership into national or Government property whenever possible in the usual course of administration—with an annual provision for a proportion of such new Land Tax being paid in land under the control and supervision of the local land court, or courts—would gradually tend to the extinction of absolute private ownership. Whatever the reforms practicable, the great object in view is to restrain the practice of rack-renting, especially in industrial and commercial centres, and this can only effectually be done by allowing appeals to local land courts on that and other important matters seriously affecting tenants, invariably the weaker party in such disputes.

By some such moderate reforms, more radical changes might be averted. Recent land legislation, though disappointing in its results, is certainly tending towards giving more public control and equitable arbitration respecting land, and the conditions attending its use, tenure, etc.

As further examples of the neglect of these national rights, I may mention the inadequate control exercised on behalf of the public over railway and canal companies, and in certain respects over water companies, the excessive powers they have thus acquired, and the high profits they are enabled to exact from

their monopolies of transit and supply, monopolies of what have now become *necessaries of life*; the public naturally consider that they should only pay the actual costs incurred, and the usual rate of interest on the capital invested.¹

Owners, holders, or users of this natural Wealth, according to their respective degrees of responsibility, may, by neglect or default, permit lands, mines, etc., to become nuisances, or sources of danger and expense, to others; duties and liabilities, as well as rights and privileges, therefore attach to owners and occupiers of this common-wealth. For example, sea dykes, river banks, etc., may be allowed to decay and to cause destructive inundations; improper methods of working mines may sap the foundations of houses above; imperfect drainage systems may prepare and produce pestilences in districts—each of such defaults needing the intervention of public authority at an early stage to prevent wide-spreading mischief in its area of influence.

The necessity of Taxation to meet the cost of such supervision and control becomes evident, and such controlling authority, whether the State, the county, the municipality, or other power, should naturally possess the right of deciding on whom, and in what proportions, the expense involved should be imposed. It is, then, clearly necessary that every portion of this national heritage should be held by some responsible person, or persons, both in regard to the holders' and users' interests and the Nation's permanent rights. The liabilities and duties of the State, of the provincial and local powers, and of those of landholders and tenants also need to be definitely apportioned and known.

¹ See also p. 103 respecting railways and their control in some important matters. Landowners' rights regarding mines, dead-rents, way-leaves, etc., and their power of refusing reasonable terms for working the mines, are often rigorously enforced, and injuriously affect enterprise and industry.

§ 14.—Individual and Associated Private Riches, or Products of Labour

THIS kind of Wealth is material, capable of measurement and practical valuation, and is naturally freely exchangeable, useable, and otherwise disposable at the option of its owners, without the need of State authority or intervention, provided the rights, liberties, and welfare of others are not impaired thereby. It can be increased indefinitely by human labour, capital, and judicious management—a higher and rarer form of labour.

The law naturally requires that every portion of this Wealth should have a definite responsible owner or trustee, and the institutions of a modern civilised State are in large measure designed for and applied to the protection and maintenance of this ownership and right of possession, use, enjoyment, and disposition of property, including its devolution by will, settlement, etc. These rights, together with individual liberty, constitute the chief advantage of association and Government, the substantial basis of national existence, property and liberty being equally the foundation of public law, and the law of nations as of private rights and privileges.

In discussing the functions of Government, I have sufficiently dwelt on the rights of owners of Wealth to have it secured from all illegal trespass, fraud, and violation; the Army, Navy, Police, Justice, and other Government services, when administered with due regard to efficiency and economy, impart to the minds of owners a sense of safety and permanence in value of their Wealth, extending also to its various applications and uses.

Private property of a permanent kind, like that invested in land drainage, mines, houses, harbours, etc., may derive its value from many direct and indirect sources besides the capital sunk by owners in payments for labour, materials, etc.; for example: from similar outlay by neighbouring owners, etc., such as railway companies, mine-owners, harbour trusts, etc. incidentally benefiting adjacent property; from tenants' per-

manent improvements reverting to owners; from outlay from rates and other local government funds; from State loans for local improvements at lower rates of interest than usual; from State expenditure on roads, bridges, drainage, etc., indirectly benefiting a locality, but not chargeable to owners. Increase in the population of a locality may also increase the demand for property there, and thereby its value.

Similar enhancement of values, but on a smaller scale, goes on in other less permanent forms of Wealth, partly the result of increasing demands from a growing population, but it is more easily remedied by improvements in production and supply than Wealth intimately associated with *land*, which, limited as it is in quantity, and its acquisition and employment often hampered by restrictive conditions of tenure, transfer laws, cultivation, etc., tends gradually but surely to become a monopoly.

But corresponding causes are also at work diminishing values, the most potent of which is natural decay, affecting all kinds of Wealth, national and private, though its action is more quickly noticed in the form of private riches or the products of labour, and most especially in quickly perishable articles of food.

As observed respecting holders of public national Wealth (land, etc.), individual or associated owners of private riches also have duties and liabilities as well as rights and privileges attaching to their Wealth, these, if neglected, leading to annoyance, danger, and expense to others, and needing the intervention of the authorities responsible for the general welfare of the area of Government. For instance, structures may be tottering to their fall and dangerous to life, workshops unhealthy, ships unseaworthy, explosive or inflammable substances inadequately safeguarded, etc.

As the mechanism of civilisation grows more extensive and complex, the need of prompt interference and control in such matters for the general advantage becomes apparent. It is also evident that the expense of Government service in thus supervising private property, controlling its owners, and guarding the public rights and privileges in relation therewith, should be met by taxes levied on such private riches, proportioned to

the cost incurred in the area of Government (imperial, provincial, or local), authorising and controlling the necessary services and expenses for the public safety, etc. It is further evident that such authorities should have the power (subject to the right of appeal to higher authority) of directing how such expenses should be defrayed, either by assessing all owners indifferently, or wholly or partially those particular owners whose negligence or improper action caused the expense in question.

§ 15.—Government and Local Government Property

THESE properties partake of the nature both of public and private Wealth. By Government property I mean the palaces, public offices, law courts, arsenals, dockyards, forts, naval, military, and civil storehouses, factories, etc., and the Government ships, ordnance, and stores of all kinds. In a certain sense these are the property of the nation, but of necessity they cannot be used like the public roads, woods, commons, etc., by all classes at all times and seasons.

The Sovereign, as chief of the national executive, is the legal owner of this property, though, for convenience sake, a deputy for each public department sues, or is sued, at law.

Further, it is in the nature of trust property, but its administrators, by wise or unwise management, derive no personal gain beyond their salaries, and suffer no personal losses. In order, therefore, to secure efficient and economic administration, it is necessary, far more than is the case with private property, that the strictest control should be established over its general and detailed management. To this end a perfect system of accountability for all parts of it is needed, and properly to test and gauge the economy of its administration, compared with that of private properties of the kind, it obviously must be subject to each kind of public and local tax, or rates, to which they are liable, for, like them, public property shares the benefit of public outlay of several kinds. But this is imperfectly carried out as a financial principle in the United Kingdom, as will be shown in due course. By the uniform Taxation of public

and private property Government officials would better realise the objections to taxes on business forms and proceedings, and the importance of observing the utmost economy, simplicity, and dispatch in their fiscal and financial methods.

These considerations, and others of minor importance, tend to show that this public property must economically be viewed as "private Wealth," like that of other collective institutions. The valuation of such property, however, has to be assessed on rather different principles to those of private riches, for it is to some extent unsaleable, as in the cases of forts, arsenals, etc., whose value cannot be practically tested, and even the freedom of sale of public stores (their exchangeability) is much impaired owing to Parliamentary and official rules and restrictions, the special nature and make of the stores themselves, the Government marks thereon, the limited uses to which they are applicable, and to the fact that they yield no commercial profit in their use. These circumstances have to be recognised in official valuations for different purposes, and in naval, military, and other branches of State finance allowance is partly made for them, and *official*, not *market*, values are assigned to certain objects of sale, transfer, assets, claim, and cost in account.¹

County and other local Government property is governed by like considerations as to restricted uses by the public, particular trust ownership, altered conditions touching profit and loss, necessity for stricter accountability and control, special character of assessment and valuation, and equal amenity to public Taxation and rating for their share in the benefits of public services and outlay.

Viewing, then, these State and local government possessions or riches (like other trust properties), as "private, collective, or associated Wealth and Value," they quite accord with Sismondi's definition of "Wealth": "That surplus portion of the produce of labour which is available for future use."

Under our existing tax system, Government property, im-

¹ Local Government accounts and valuations of corporate property and undertakings are doubtless inferior in completeness to those of State property, as auditors acquainted with both systems will readily admit.

perial and local, contributes to general or local tax revenues at much lower rates than private property does, in fact, State property scarcely subscribes at all to imperial Taxation; it is, therefore, obvious that the more existing private undertakings and institutions are converted into public ones, supported from public taxes and rates, so much the less will the remaining private property be able to furnish imperial and local revenues at the same tax-rate percentage. The tax rate must therefore rise, and all that could be set off against this rise would be the slender chance of public management proving more efficient and economical than the private enterprises it superseded, *after strictly including every proper charge in the comparison of cost*. The impartial Taxation of Government property serves, then, as a check on the tendency to multiply Government functions.

Some further aspects of Wealth will now be considered, for, on assumed differences in their forms, writers have founded arguments for taxing particular classes of Wealth differently from other classes, or for wholly exempting them. I shall confine myself to noticing certain terms used to describe Wealth in some of its particular economic phases and uses, which have led to distinctions in their Taxation.

§ 16.—Productive and Reproductive Wealth

SOME economists have drawn a distinction between productive and unproductive Wealth, classing with the latter, furniture, jewels, pictures, parks, etc., though these things are certainly also *productive*, but most usually in immaterial forms.

Dr Farr, in an article on the "Equitable Taxation of Property,"¹ argued, that such things "have been purchased with money, and may again be converted into money—the representative of Capital—which can always be invested productively; and if instead of investing £10,000 in land, which would produce £300 a year, you invest it in furniture, pictures, or jewels, it is

¹ *Vide Statistical Society Journal.* Lond. 1853.

evident you select this investment because property in such a form yields services which you esteem at a higher value than £300 a year."

It will be more correct then to classify Wealth as "productive" and "reproductive"—"productive" when it is employed in yielding satisfaction, knowledge, improvement in mind, body, etc., and other unexchangeable, immeasurable goods, incapable of practical valuation; "reproductive" when used in reproducing material Wealth, that may be seen, measured, identified, and exchanged. There is productive and reproductive labour also, as shown later on.

I cannot find any sound reason for exempting from Taxation productive wealth-objects yielding income services incapable of exact measurement; they need public protection like other Wealth, and get it, as the police reports in the daily Press amply prove.

§ 17.—Capital—Generally Considered

"CAPITAL is the labour of the past, and has rights as perfect as those of the present."¹ It is natural force stored up by labour, labour remunerated or not by wages, pay, etc. There is really little difference between Wealth and material Capital, as distinct from mere claims on Wealth, Capital being simply a particular portion of Wealth appropriated to some more or less defined object or purpose.

Professor W. Roseher defined Capital to be: "Every product laid by for purposes of further production."² Here he, of course, includes "reproduction."

Walter Bagehot wrote: "By Capital . . . we mean an aggregate of two unlike sorts of artificial commodities, co-operative things which help labour, and remunerative things which pay for it. These two have this in common, that they are the produce of human labour."

These two products he calls, therefore, "co-operative Capital"

¹ A. Walker, "Science of Wealth," p. 61. Boston, U.S., 1866.

² "Principles of Political Economy." Leipzig, 1877.

and "remunerative Capital."¹ Clearly both are exchangeable Wealth, Wealth that can be practically measured and valued.

The Austrian Professor, Von Böhm-Bawerk, who supports the positive theory of Capital, says: "Capital is the complex of products destined to the acquirement of goods. Capital consists of all improvements in the national elements of production, of all implements which facilitate production, and of all commodities, which, though produced for consumption, yet the value of which will be replaced to the producers from the income of those who consume them; for example, permanent improvements in land by which larger crops are produced, improvements in water-courses, rivers, docks, etc."²

There are some who view Capital as monetary claims solely, substantial and speculative, who regard it, not as exchangeable value, not as instruments, tools, raw materials, food, clothing, cash, etc., but as tribute-levying power only, as claims on the present and on the future, measured in currency whether likely or doubtful of fulfilment, and apparently indefinite in extent, like the nominal and other capital of bogus and balloon companies. This may, indeed, be called the *negative* view of Capital. No doubt, actual and speculative Capital are often associated together, the latter sometimes exercising much influence on prices and values, as may be seen in the action of trusts, syndicates, and other associations for creating "corners," or monopoly prices, in land and certain necessary goods in demand. As an example of speculative Capital, largely dependent on future tribute-levying power, but associated with substantial Capital, may be instanced the stock of the large water companies of London, the value of which is chiefly based on its *future profit-yielding chances*, the present value of plant, cash, and current valid credits being comparatively small when contrasted with the speculative value of many years' probably increasing profits. These mixed capitals are multiplying rapidly.

Amasa Walker terms Capital: "That portion of Wealth em-

¹ "The Postulates of Political Economy," p. 50. Lond. 1880.

² Böhm-Bawerk, "Capital and Interest." Vienna. Translation (1891), by W. Smart, M.A., Lecturer on Political Economy, Queen Margaret's College, Glasgow.

ployed in production." Bonamy Price restricts the definition to: "Wealth used for the purpose of producing income, and for that purpose only." Evidently immaterial as well as material income must be included, as the latter is only a part, though a large part, of the industrial field to which Wealth may be applied. It may be used in producing, maintaining, and promoting a healthier, fuller, higher, happier condition of human bodies, minds, and souls, and other objects certainly not "material" Wealth or Income, but invisible, intangible, unmeasurable, and unexchangeable, though none the less useful in developing man's powers, faculties, and senses, and inspiring and stimulating to nobler and more widely useful lives and activities.

The realised product of such application of Capital to the personal usefulness of mankind has been termed "Personal Capital," and, when in course of acquirement, may be called "Invaluable Income," for it is impossible practically to measure it, inasmuch as vast amounts of knowledge, skill, and other personal Capital may be acquired by individuals, but allowed to escape like water through a sieve, or be applied to little or no useful purpose. Personal Capitals and Incomes being thus insusceptible of measurement, their Taxation, in any form or degree, seems opposed to common sense.

Sismondi and the Ethical School of Economists, De Laveleye, A. Marshall, and many other writers, maintain that the welfare and happiness of Society is the great end to be aimed at by Government and legislation, and that Political Economy should not merely be—the science of increasing material Wealth. Wealth employed in acquiring and imparting health, happiness, knowledge, and such like personal benefits, is but another form of investment of capital quite as useful and necessary as that engaged in reproducing material Wealth, for it enables mankind rightly to use and enjoy the latter, and to derive the utmost advantages from it, as well as to produce it more easily and economically.

Economists usually recognise the twofold employment of Wealth, either as an instrument of production and income, or as a ways and means of expense, though some have not always fully realised that much that is termed "expense," or "final

expense," is merely a form of investment—investment in "personal Capital." Lauderdale evidently recognised this in his censure of over-parsimony. He has also pointed out that, the profit of all Capital arises from the circumstances of its supplanting a certain portion of labour, which would otherwise be performed by the hand of man; or in its executing a portion of labour beyond the reach of man's powers to accomplish, and, therefore, that there may be an excess of Capital in a particular place, in certain forms, and at certain times. Were competition and the principles on which Wealth is produced and shared more perfect, this should not occur, for Capital would then tend to increase when and where it was most wanted.

It is not difficult, therefore, to see that Capital employed in reproducing material and personal Wealth or Capital may at a given time and place be in excess of the effective demand for it (Wealth backing the demand) when we consider the severe competition *present labour* sometimes has to sustain with *Capital* in its struggle for subsistence. Capital, no doubt, gives employment to labour, *but in the form of an exchange*, capitalists requiring their *quid pro quo*, and too often this "*quid*" vastly exceeds in value the "*quo*," or satisfaction given in the shape of wages, etc., owing to labour's pressing need for subsistence, it having but little Capital to support it in its efforts to secure its fair share of the Wealth resulting from its co-operation.

This material Capital has to be guarded by the State against fraud, violation, etc., and it seems but the most elementary principle of justice to make it contribute, *without any exception whatever*, to the cost of this State protection.

The State is clearly entitled to some share of this Capital for its guardianship, and provincial and other local governments, as regards *their* functions, also have an equitable claim on it. Taxation thus appears as one of the natural liabilities of material Capital, as of Private Riches generally.

§ 18.—Fixed and Circulating Capital

FISCAL distinction has sometimes been made between fixed and circulating, or floating capital. Adam Smith defined "fixed capital," as property of whatever kind yielding profit to its owner by his keeping it in his possession; and "circulating capital," as everything yielding him profit, only by his parting with it. Now, it is evident that property may, under different circumstances, assume both characters; for example: horses may be let out for hire to-day as fixed capital, and be sold to-morrow as circulating capital.

Bonamy Price, defining "circulating capital," says it is destroyed in one using, and instances coals and provisions as examples. Yet it really differs from "fixed capital" only in its more rapid rate of consumption. The entire value of coals is not always destroyed in one using, a value sometimes remains in the residuum—coke; the same may be said of provisions, fodder, and other goods which undergo conversion, and re-appear as value in cattle, meat, muscular vitality, manure, etc.

All capital—all wealth, indeed—may be said to be in gradual process of circulation, flux, or consumption, though not so readily noticed when in the form of bullion, specie, houses, etc., whilst in almost every kind of wealth consumption a residuum is left, in some cases measurable, in others not, but no less real though insusceptible of valuation, as, for instance, the knowledge and skill acquired by the outlay of material wealth and human labour needful to successfully practise a profession, or conduct a business.

Stanley Jevons took this view of all capital being in process of gradual consumption, and that what is called "fixed capital" is merely wealth, usually taking longer to consume than other kinds. He defined capital to be: "The aggregate of those commodities which are required for sustaining labourers of any kind or class engaged in work." And further: "The current means of sustenance constitute capital in its freer or uninvested form." And in respect of its uses, he observed: "Capital allows us to expend labour in advance. . . . Whatever improvement in the supply of commodities lengthens the average

interval between the moment when labour is exerted and its ultimate result or purpose is accomplished, such improvement depends on capital."¹ The free dwellings supplied to labourers, as well as their wages and food, are equally capital aiding labour.

Professor Böhm-Bawerk tried to define the difference between fixed and circulating capital, thus: "The two most important distinctions between fixed and floating capital are: (1) That the former consists of labour employed only for the purpose of affording greater facilities for the production of those commodities required for the daily use of mankind, whilst the latter (circulating capital) consists of labour employed in the actual production of those commodities themselves; and (2) that the use of the commodities representing fixed capital returns no fund from which the same amount of labour can be continuously employed, whereas the use of the commodities representing floating capital returns an undiminished fund by which the same amount of labour can be again employed." But is not the housing of labourers in permanent buildings, in part payment for their labour, fixed capital doing similar work to circulating capital? He proceeds: "The amount of fixed capital, if increased out of due proportion to the floating capital, would reduce the floating capital immediately available for production of articles of consumption,"² confirming Lord Lauderdale's view that capital may be in excess at a given time and place.

And now to apply these arguments. It has sometimes been held that fixed capital only should be taxed. But the practical difficulty of distinguishing between the two is at once encountered by fiscal authorities. The same may be said of attempts to apply differential tax rates to the two. Both kinds of wealth are protected by the machinery of Government, and both are equitably liable to pay for such protection; the true distinction lies in the difference in the time for which they need State protection, which should regulate their respective taxation, and little has ever been done to frame any practical scale of relative tax charges for such purpose.

¹ "The Theory of Political Economy" (1879), pp. 242-43, 245, 248.

² "Capital and Interest." Translation of Böhm-Bawerk's work, by W. Smart, M.A. Glasgow, 1891.

§ 19.—Realised Wealth—What is it ?

THE special taxation of realised wealth has often been advocated; but can it be defined with sufficient distinctness for the purpose of tax assessment? Many might think that cash in hand, sums in current account, and deposits at call at banks would come under this term; others would include Government stock, bonds, bills, and other public and private securities, though the character and credit of the Government, the association, or person responsible for the repayment of the principle, and the regular payment of the stipulated interest on it, might be very differently estimated, and accurately reflected probably in the value of the securities themselves.

Realised wealth may also be viewed as property withdrawn from usual commercial risks, the chance of large gain or loss, and invested in high-class securities giving moderate fixed rates of interest, but greater security for their continuance, and for the safety and value of the principle invested; or again, it may be regarded simply as visible material wealth in measureable exchangeable form. In the two first cases it is difficult to distinguish this realised wealth from mere claims; it becomes, then, more a question of the degree of security, and though a line has sometimes been drawn to define the legal limits of security for the investments of trustees, there is no law applicable to realised wealth generally, nor would it appear possible to arrange one.

Sound securities of the kind are most useful in highly-civilised communities, where, from many causes, stability in value of principal and rate of interest is important, for instance, in banking and insurance businesses, where ready cash is required at short notice, and readily negotiable securities of steady value practically represent in their sale prices *interest up to date*, and consequently become necessary features in their assets. These securities are also most useful for the purpose of trusts for the aged and infirm, for women and others unversed in business; in fact, all classes—rich and poor alike—are interested in having secure investments, relieving them from anxiety as to future income provision. The poor, indeed,

are more concerned herein than the well-to-do, for the funds of hospitals, charitable foundations, savings banks, and other institutions chiefly serving their interests are mostly invested in these securities. The active business or professional man also has an interest in their stability, for the wheel of fortune may bring him, or others dependent on him, into a position to realise the benefit of such safe incomes.

To impose a special tax, or a higher rate of tax on wealth of this kind, or on its income, seems as impolitic as it would be unjust.

The revenue officers would find great difficulty in discriminating between realised and unrealised wealth. For instance: should money invested in benefit societies be taxed as realised or unrealised wealth? The interest paid by some of the balloon, or bogus, societies of the kind are often merely repayments of the capital invested in them, and are not true profit income at all, and many investments coming under the term "realised wealth" are little else than the capitalised value of the power to exact tribute, fairly or unfairly, from consumers or users of certain commodities or services supplied to them. Much of this so-called wealth is contingent, or nominal; for instance, the value attached to railway, gas, and water companies' shares is calculated from the rates and charges paid by their users and consumers, less the cost of service; and the probable continuance of these net profits—mostly profits on monopolised necessities—is a most important element in such securities' value, which much exceeds the value of the actual visible wealth of, and debts due to the companies, the surplus representing speculative value, or *future profit-acquiring power*, as noticed under the head of Capital.

The more the problem of discriminating between realised and unrealised wealth for purposes of taxation is examined, the more impracticable does it appear, and I am forced to the conclusion that "realised wealth" is an indefinite term, unless it means actual, visible, measurable, transferable products of labour, as distinguished from mere claims on the wealth of others, however certain of future realisation.

§ 20.—Real and Personal Property

WE will next briefly consider wealth in its legal aspect.

As Frederic Bastiat has remarked: "Property is a necessary result of man's constitution . . . property is a divine law, recognised even in the brute creation . . . property was a fact anterior to the law . . . unless the right to possess property was made certain and unquestionable, mankind would have much less incentive to labour."¹

Custom or prescription has immense power in this matter of right. It has been said: "The right of private property is the very basis of national existence, for property and liberty are the foundations of public law, and the law of nations as of private rights or laws." Besides this right of possession and free use of wealth in any way not opposed to the public welfare and order, there naturally springs the right to bequeath it in any proportions, and to any person or persons preferred by its owner, but this last right is often limited with regard to what is called "real property," in other words *natural wealth*, lands, mines, etc., and other wealth sunk, or permanently invested in the same. Here, as might naturally be expected, public policy and public rights intervene, and the law provides that the employment or non-employment, and the various uses of this natural and truly national wealth and heritage, shall not be solely controlled by the directions of a dead hand. The same power of intervening for the public welfare in certain important matters seems equally needful during the lives of those claiming absolute possession and rights of ownership over natural wealth. Special State intervention of this kind has been granted in the form of land courts of enquiry, etc., in Ireland, and certain districts in Scotland, respecting excessive rents, arrears of such rents, etc., but intervention is requisite for other matters in dispute, and other portions of the Kingdom besides these have land grievances needing redress.

If, from grave considerations of public policy, contracts

¹ "Œuvres de Bastiat." Paris, 1860. "Property and Law," vol. iv. p. 277, etc.

respecting land, the conditions of its tenure, etc., must be interfered with by the State, it seems only common justice that this controlling power should be accorded in all parts of the United Kingdom, and not confined to the above districts only, and that complaints and disputes as to other forms of natural wealth, mines, foreshores, way-leaves, etc., should also be referred to the same, or kindred judicial tribunals provided throughout the country.

The term "real property" is in a certain sense a misnomer, for no private person or particular body of persons can be constitutionally regarded as the real absolute owner or owners of the national land; in fact, the existing generation, represented by its reigning Monarch and Government, is merely the trustee for succeeding generations.

There would seem no valid reason for taxing capital sunk in land, mines, etc., at lower rates than other kinds of property except on the ground of its costing the State and local Government much less than other kinds of property for its protection, regulation, and control. Agricultural, pastoral, and forest lands and plantations, and all forms of fixed property, even coal mines, cause much less expense for Government services than movable and easily exchangeable and convertible forms of wealth, requiring constant and vigilant public protective agencies. But the distinction in the tax rates respectively charged on real and personal property, chiefly noticeable in the United Kingdom in the Death-Duties and Stamp-Duties on Transfers, and other actions in respect of property, cannot certainly be considered as based on, or reconcilable with, any principle of relative cost to Government; they will be found to be simply arbitrary when not *ad-valorem*, and when *ad-valorem*, certainly unjust.

§ 21.—Necessaries and Luxuries

OBJECTS of value, in relation to man's needs and wants, are now usually classified by economists in this order:—

(1) *Existence necessities*—which should include the use of land and other natural wealth not produced by human labour, and

other goods and services of first importance, such as primary articles of food and clothing, shelter, warmth, light, etc. Government protective, etc. services and institutions come under this head.

(2) *Efficiency necessities*—that is, goods and services beyond bare necessities, which persons, in their individual experience and environment, find best to maintain their efficiency, or promote their advantage in their respective occupations.

(3) *Class or condition necessities*—sometimes termed “conventional necessities,” “decencies of life,” by Nassau Senior; such as goods and services usual in the class or condition of life of those requiring them, and without which expense they would lose caste or position in public esteem, or in the opinion of the class generally observing and requiring certain customs, subscriptions, habits of dress, uniform, etc., amongst whom it was a rule, or even a law.

(4) *Luxuries*—goods and services above these limits, “superlucration,” as Charles Davenant termed it, though it is difficult to fix the exact point in the above three classes where superlucration begins.

This classification explains itself, and I need only add that the outlay one class deems a luxury, the classes above it will mostly consider a necessary, and that the scale of social comfort in most nations has in many ways largely increased of late, though it must be admitted that in some others it has shrunk, if we fairly and broadly examine the facts, not confining our attention to *material* advantages only.

Industrial progress and advancing civilisation cause certain objects of luxury and expense to be superseded as commonplace by other luxurious outlays more in accord with the fashion and opinion of the time. Most economists believe with M. Leroy-Beaulieu that attempts to suppress luxury only hinder industrial progress, for, as Professor C. Babbage and others have observed, it is a great incentive to industry.

It has often been held that tax rates should fall heavier on luxuries than on necessities; but there is a natural economic tendency in the prices of luxuries to stand at a higher level than those of necessities—luxuries having a more uncertain and restricted market, their vendors having to secure them-

selves against losses on their stocks, which are peculiarly liable to depreciation from caprices of fashion, season, etc.; these high prices in themselves act as a tax on luxuries, though one not flowing into the public treasury, but rightly into the hands of those incurring the risks of manufacture and sale.

There is also a tendency among vendors to ask higher prices from the well-to-do than from the poor, who, as buyers, are more accustomed to beat down prices; thus the over-payments of the richer enable the poorer classes to obtain low prices, as, for example, in the sale of fish, meat, fruit, and other quickly perishable goods. The poorer classes are also able to obtain clothing, blankets, coal, medicine, medical advice, surgical aid and appliances, shelter, etc., at specially low charges, often, indeed, gratuitously.

No doubt, in small purchases at grocers and other retailers, the poor suffer from excessive prices, such vendors being forced to charge highly to cover losses from giving credit and extra labour attending numerous petty sales. The remedy is found in co-operative buying, hiring, and services, a system spreading in the towns and several villages of this Kingdom, and managed on a ready-money basis; and co-operative *production* in some kinds of goods has also tended to reduce the prices paid by the masses.

Then again, prices of staple articles of general consumption and use tend to be low, owing to the quantity of capital and labour attracted into such branches of production by the constant demand for, and profit from these goods, the profits usually being moderate but continuous, though prices quickly rise when scarcity in supply is at all generally anticipated, leading to economy in use and improved supply methods.

These considerations suggest that an equal tax rate, proportioned to the value of all necessities and luxuries, would be the nearest approach to natural fiscal justice, but the tax laws of most nations will be found singling out for special taxation particular articles or services only, and levying directly or indirectly heavy duties on them, or on their use, under various pleas, such as their being luxuries, injurious to health, competing with home products, etc.—all tending to restrict natural liberty, but never systematically carried out as a principle in

respect of all similar tax objects with their substitutes and complements, or "connected goods," as A. Schäffle terms them.¹

It is evident that untaxed articles and services, as compared with those taxed, whether substitutes or not for them, are so far protected, and that when taxed at lower rates than other taxed goods of the class, they are also *pro tanto* protected. Thus, in the United Kingdom, race-horses are protected as compared with taxed luxuries—say, champagne—yet, if there be one thing more than another a luxury it is a race-horse. Consider the enormous prices paid for these superb creatures, and the expenses involved in their stabling, forage, training, etc., scarcely taxed at all as expenditure, though representing large values, and then contrast the grinding taxation laid on the tea consumed by the poor, 100% per annum at least, if the value and the time element of State protection afforded are included in the computation, as they justly should be,² and this tea is by some classed as a luxury!

The late Professor F. W. Newman, touching this matter, wrote: "Those who are in physical affluence are too apt to argue that tobacco, and sugar, and tea, and coffee, and spirits are not necessities of life; certainly they are not to those who have plenty of bread and meat, and milk and butter and eggs, with warm clothing and good fires; but to those who can only afford bread and water, and find meat, eggs, butter, and milk too expensive, and who are exposed to wet and cold, something to give a stimulus, a warmth and taste, is a necessary of life; and large experience indicates that cheap coffee and tea are the best remedies for the fatal tendencies of gin and other spirits. Even tobacco may be a necessary in damp weather."³

As I have shown in the "British Tax-payers' Wrongs" (p. 25), the Rev. Sydney Smith took a similar view, and in the evidence given before the Royal Commission on the "Financial Relations of Great Britain and Ireland," Sir R. Giffen—one of the soundest financiers of the day—has endorsed this opinion as regards spirits, and Lords Welby and Farrer, and other Com-

¹ "National Oekonomie" (1867), 2nd edition, p. 179.

² This calculation is explained in § 93, p. 178, etc.

³ Quoted by W. P. Urquhart ("Dialogues" (1867), p. 64), from "Newman's Lectures on Political Economy." Lond. 1851.

missioners, have expressed their virtual agreement with the same in their joint report (1896—C 8262).

To determine whether an article is a luxury or a necessary will be found largely to depend on the person using it, his surroundings, tastes, occupations, health, and other circumstances, most difficult for the legislative or administrative mind to arrive at, and construe into any scale or tariff for the taxation of so-called luxuries or necessities of differing grades of importance. The late M. de Laveleye has shown that consumption of luxuries by the rich does not promote the interests of the poor as some think ;¹ Sismondi has remarked that : “ All efforts of financiers to obtain a product at all considerable by special taxes on the luxuries of the rich have been found vain ; thus fiscal science, as well as all other branches of Political Economy, requires that the poor should be liberally paid for their labour that they may contribute largely to public expenses ; ”² whilst M'Culloch boldly takes the line of argument—that taxes on necessities of life cannot be objected to on the ground of injustice.³ Were *all* luxuries as well as necessities taxed, and their quality and value included in their assessment, this view might have been accepted more readily.

§ 22.—Raw Materials and their Stages in Conversion

A DISTINCTION has often been drawn for taxation purposes between raw materials and products, and manufactured goods ready for sale, use, and exchange—indeed, it is a prominent feature in British fiscal policy ; for example, barley, hops, oats, and malt are untaxed, whilst beer and whiskey pay duties. Can this be equitably and economically justified ?

In all visible, measureable, exchangeable objects of value, labour in some way or other has entered, changing it from its original state as “ raw material,” the crops of the corn and flax

¹ See his work, “ Le Luxe.” Verviers, 1887.

² “ New Principles of Political Economy ” (1826), p. 223, Mignet's translation.

³ “ Cyclopædia Britannica ” (1860), Article—“ Taxation,” p. 41, by John Ramsay M'Culloch.

producer become the raw materials of the millers and linen-weavers, and so on with each successive stage of production, manufacture, and adaptation to use. The only truly raw materials are Nature's elements, the virgin soil, the metals and minerals *in situ*, the indigenous vegetable life, and the undeveloped human and other animal life in a country; all else has more or less undergone the action of labour in the processes of cultivation, manufacture, education, etc.

In some forms of wealth, improvement in value can be practically measured, in others it can only be inferred, and comparison with like objects becomes the only criterion or basis for assessing their taxable value; but, *in the long run*, the more labour expended on any exchangeable article or object, the more is its value likely to be increased; this value, taken in connection with its public protection cost, offers a fair basis or criterion for its just taxation, and as the object approaches the state of a finished product its value, as a rule, proportionally increases, and is measureable closely enough for the purposes of tax assessment. Insurers of produce and materials in an unfinished state are not usually inclined to value such goods below their cost in labour and materials.

What truer and juster basis for taxing so-called "raw materials" could be selected than their value as unfinished products? Like finished products they need public protection, and get it, imperial, provincial, and local, and that their owners or trustees should contribute to the cost of it seems obvious enough.

§ 23.—The Notation and Measurement of Wealth and Value.

Measures, Weights, etc., Currency, Bimetallism, Decimal Notation, etc.

WEALTH has now been considered under its more important "static conditions," and before dealing with its "dynamic relations" (production, division, etc.), I must briefly notice the contrivances for measuring and recording wealth and its value.

A community soon finds it necessary for its social and domestic needs to measure and record quantities, weights, values, etc., of the various articles of wealth dealt with in foreign and domestic exchanges, wholesale and retail trade, manufacture, etc.

Operations affecting wealth and value involve the use of certain quantities, measures, lengths, etc., adapted to the nature of the goods and services used, exchanged, etc., with corresponding divisions and sub-divisions to represent fractional quantities, values, etc., and in course of time, for general convenience, instruction, and guidance, tabular scales of such weights, measures, values, etc., are agreed upon and adopted, based on these whole quantities of measurement and their sub-divisions.

These methods of notation and measurement may at first vary in different localities, but in course of time the central Government intervenes when the interests of the entire community begin to suffer from such variations; it then prescribes certain general standards of weight, value, etc., and sub-divisions thereof, and in regard to some objects—coinage, for example—their legal quality and fineness also.

Such weights, measures, coins, and tabular scales, with the system of notation for their record, are usually framed on the simplest principles, easily learnt and practised by all classes. Most nations have now adopted the decimal, or metric system for these purposes, but for some cause, possibly doubts about political strength sufficient to carry such a measure against party tactics, our rulers still hesitate to adopt the principle, despite its complete success wherever introduced, though our nation would reap greater advantages than any other by adopting it in its entirety.¹

¹ Without any exaggeration, it may be affirmed that our nation *directly* wastes over £1,000,000 annually in time and trouble in the teaching, learning, and operation or practice of our laborious system of weights, measures, and coinage, and in calculating and recording by our cumbrous methods of notation; and *indirectly*, it probably loses annually another million, which might have been realised as profits on transactions with other nations adopting the metric system of weights, measures, coins, and accounts, but who naturally find it easier and more satisfactory to deal with merchants, manufacturers, and agents using like methods of notation and measurement of goods and values.

In regard to our currency, with its gold basis or standard of value, it must be admitted that no possible commodity, or association of commodities, can serve as an absolutely permanent and accurate standard and measure of value, but gold has been found sufficiently steady in value for practical purposes. In most highly organised communities it has become the sole standard of value for measuring all wealth, services, debts, and credits; like other measurement standards it has to measure past, present, and future transactions, and its universal use for such purposes seems only a question of a few years, as, for many reasons—for instance, the higher values represented by it in small figures and bulk; the economy attending its use, in saving time; the simplicity it effects in cash and exchange transactions of any magnitude; and its easy record in books and accounts—it proves distinctly preferable to silver.

The basis of our British currency is the intrinsic value of the gold, silver, and bronze composing it. All excess or artificial value attaching to the worn gold coins, and to the silver and bronze sub-coinage, is purely credit; so also is the excess nominal value of the national paper currency issues over and above the real value of the coinage and bullion held to meet such paper. The credit thus arising from the issue of such inferior coins, sub-currency, and unrepresented paper currency, might ultimately have to be met by goods other than that coinage and bullion, by debts due to such issuers, or by taxation to the needful amount, to satisfy the claims of the creditors holding the coins and notes insufficiently represented by value. By strictly devoting the net profits gained by issuing silver and bronze coins above their true value to maintaining the legal weight of the gold currency, the British Government is, *pro tanto*, establishing our national gold standard of value on a firm and substantial basis.

Though only indirectly affecting taxation, I am tempted to add here a few remarks on the much-debated question of Bimetallism, or double standards of value.

(1) The fact of the gold price of many commodities having fallen during recent years in no way proves that gold has become scarcer and dearer. Many of these commodities have deteriorated in quality; though nominally the same, they are

less durable, or in other ways deficient in quality—for example, leather, linen, etc., or what is sold as such. The main cause, however, of depressed prices, *often silver as well as gold prices*, is, the great development of production in new fields of industry, the improved processes introduced in production, in transit by water and land, and other exchange facilities (insurance, etc.), greatly neutralised, however, in many countries by the maintenance of excessive armies, navies, and armaments, with the corresponding loss to productive industry, and also by the undue taxation of imports; but general depression in prices should mean reduced cost in general production (including gold and silver production), and higher standards of comfort among most classes.

(2) Besides serving as the standard of value in the British dominions, probably including India, which currency is all but on a gold basis now, gold—either in the form of coin of particular pattern, weight, and fineness, or of bullion of particular degrees of fineness—acts as a general medium for domestic and foreign exchanges, and so careful have successive British Governments been to maintain the legal weight and fineness of gold in our coinage, that gold “sovereigns” have become an universal medium of exchange, and these coins are now the most generally exchangeable commodity in the world, and we should be foolish indeed, to allow any *appearance* even of tampering with our British currency system. In decimalising our coinage, therefore, it would be an obvious necessity to decimalise downwards from the *gold* sovereign as the standard coin, the standard of values past and present; and we may safely predict the universal standard for all nations in the future.

(3) Silver, as money, is unmistakably subsiding into the position of a mere auxiliary, or sub-currency, for representing fractional values. For those having important interests in silver, and silver mines, it is no doubt an unpleasant fact that silver is fast being superseded as a standard of value.¹

(4) Gold, as a product of very permanent value, and of great power of exchangeability, soon attracts to itself the consumable

¹The growing preponderance of gold standards of value must certainly be affecting the prices of commodities and services in countries using silver as the standard of value, like India, etc.

commodities needed by its owners; in newly opened up gold producing districts, purchases (exchanges) are effected at extremely high gold prices, but they soon find their normal level.

(5) Gold coins being subject to serious loss by wear and tear, it becomes important to economise their use, and to effect this, and facilitate business, various instruments of exchange and credit have been devised—bank-notes, bills, cheques, warrants, etc.; and further, what may be called the fixed machinery of exchange and credit—banks, clearing-houses, account systems, etc. The economy thus effected in the use of gold is simply astounding, as statistics published from time to time record in regard to the Bank Clearing Houses' returns. Similar economy in the use of silver is naturally insignificant in comparison.

The higher the national credit, the greater becomes the possible economy in the wear and tear of its coinage by means of documents, credit and debit entries, etc. All these devices acting as substitutes for, or economisers of, coin, serve to check the demand for it, especially gold coin, and further developments of credit and debit records, and credit and exchange instruments will no doubt continue, more particularly in countries with gold standards, automatically preventing any undue appreciation of gold, further checked as it has been by substitutes for gold, such as aluminium, etc., in the jewellery and other trades, once employing gold more exclusively.

The increased demand for gold for currency purposes, besides causing a rapid development of the economic methods just noticed, has also given a great impetus to gold prospecting, methods of production, assay, freight, etc., and the supply of the metal seems now to keep pace more steadily with the demand for it, certainly more so than the silver supply does, affected as it is by the plethora of bullion and coin held in the United States, France, etc., far in excess of their needs, and useless as currency.

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To impose any special or peculiar taxes on these metallic and paper instruments for effecting exchanges, transfers of credit, debt, etc., or otherwise to interfere with their economic efficiency must be highly injurious, as directly opposed to that perfect freedom so essential in business transactions; yet a consider-

able revenue is annually levied in the United Kingdom from such sources as I have elsewhere described.¹

Special taxes have sometimes been imposed on banking businesses, when State control over certain matters was all that was really needed on behalf of the public interests—*ex. gr.* control regarding unclaimed balances, dividends, note-issues, etc.

Rulers of nations (in old times including British statesmen), have often found sources of revenue in the issue of coinage much above its intrinsic value and cost of mintage, or, in the circulation of certain coins, at rates exceeding their intrinsic value. Where the coinage thus overvalued is the standard of value, a more pernicious method of raising revenue can scarcely be suggested, for in a most insidious way it vitiates public and private contracts, debts and credits, and introduces an element of uncertainty in all future receipts and payments and values generally, besides destroying the utility of records of past transactions and values for purposes of comparison.

Our own silver coins no doubt are issued much above their true values, which would operate as a tax on those using them were it not for the fact that they circulate only as tokens, or sub-currency, not determining values, and little harm arises therefrom as long as the profits derived from their issue are strictly charged with all proper items of mintage-cost and *the net balance is wholly applied to maintain the integrity of the gold coinage.* The over-valuation of our silver coinage, however, has now become excessive (the shilling in July 1894 being worth 5¼d. only), and, unless remedied, will certainly lead to illegal issues of standard silver coins, a practice, it appears, that has already begun in a certain Dutch colony, and in an American State.

Issues of inconvertible paper money act much in the same manner, and still form a source of revenue in badly financed and poor countries, but are more than compensated by the loss attending such devices.

Some remarks on the general subjects of value and valuation seem necessary, these matters occupying a prominent place in most organised tax systems.

¹ "The British Tax-Payers' Wrongs," pp. 49-55.

§ 24.—Value, Price, Cost, Demand and Supply

VALUE springs from man's desire for necessary, agreeable, and exchangeable commodities and services, and his efforts to obtain them; and the value of such commodities and services depends in the long run (lengthy average) on the cost of labour and material consumed in supplying them.¹ As a rule, the normal prices of services and commodities conform to their average cost, after all economic services, etc., have been included in such cost; though, of course, there will constantly be found wide differences between net cost and value.²

Values and prices are largely affected by past, present, and prospective demand for and supply of services and commodities; and demand and supply again are influenced by an infinity of conditions, circumstances, and considerations, acting and re-acting on each other, questions of time—such as present and future utility, season, durability; questions of place—such as local hindrances or opportunities for supply, and inducements, or otherwise, for demand, laws, customs, exchangeability; questions of condition—such as quality, flavour, age, colour, etc.; questions of personality—such as active competition for purchase or sale, individual tastes, dislikes, hopes, fears, needs, sense of security in present and future full use and enjoyment, possession, transferring power during life, right of disposition after death, etc.; but in the long run *cost* is the main determining element in price or exchange

¹ Amasa Walker wrote: "The value of a thing is its purchasing power: the price of a thing is its power to command gold, silver, or that which constitutes the currency of the country. Value may be expressed in any commodity whatever; price is expressed in one commodity only."—"Science of Wealth," p. 175. Boston, 1866.

Bonamy Price wrote to much the same effect: "Value is the measure of exchangeability which objects have in regard to one another, and this measure may be expressed in the quantity of any object or commodity. Price is the measure of exchangeability which objects have in regard to one special object, money, or currency, and is only expressed in that object or commodity. If the same standard of measurement were universal, price and value would be synonymous."—"Practical Political Economy," p. 53, etc. Lond. 1878.

² Caused by changes in demand and supply.

value, the relative degree of demand and supply causing the ever-varying movements above or below the normal or par level of cost; and the true price of labour, past, present, and prospective, not mere wages, but their *purchasing power*, affects, in an ascending degree, the cost of commodities and services.¹

The term "value" is used in several senses; I need only notice the most important:—

(1) "Value in use" (or "total utility," as Stanley Jevons termed it), which, as regards taxation, may be briefly referred to in the note below, showing the different expressions used by certain philosophic economists in comparing it with "exchange value."² It is, however, the true foundation of all other values.

(2) "Value in esteem" or "urgency of desire" ("final degree of utility" Jevons termed it), which is equivalent to "market value," or "value in exchange," and is called "price," or the "ratio of exchange," when used in reference to the currency of a country.³

(3) "Official," "regulation," or "legal" value, which is more or less based on "par," or "average cost" value. This latter varies with the length of the period over which the averages of

¹ Professor Cairnes wrote: "It is a very fundamental law in Political Economy that cost of production regulates the value of freely produced commodities. By 'cost of production of a commodity,' . . . is meant, the labour, abstinence, and risk necessary to produce that commodity, and by the expression 'freely produced commodities,' . . . commodities which may be produced in any required quantity by any one who chooses to go to the trouble and expense of producing them"—"Political Economy," p. 92. Lond. 1875.

² Böhm-Bawerk calls this *subjective value*; Von Storch, *immediate value*; Adam Müller, *individual value*; in contradistinction to "value in exchange," which they respectively term, *objective value*, *mediate value*, *social value*. H. C. Carey, in his "Principles of Social Science" (1861), aptly terms "utility" *the measure of man's power over Nature*, and "value," *the measure of Nature's power over man*. Böhm-Bawerk sums up the theory of value thus: "The value of anything is determined by the amount of its marginal utility."

³ General F. A. Walker wrote: "Value is power in exchange, irrespective of legal authority or of personal sentiment" ("Political Economy," Lond. 1883). Leroy-Beaulieu says: "Value is made up of intensity of wants, and difficulty in producing or acquiring things wanted." Carey very truly says: "The price of a commodity depends more on the cost of producing its like than on its own production, which already belongs to the *past*."

cost are calculated, and obviously is the average cost to the Government or other regulating power.

There is also "monopoly" value—an artificial price caused by absence of competitive production, the effect of patents granted for certain periods, with exclusive production and sale rights during such periods, etc.

In ordinary open market prices it may be assumed that most circumstances affecting the value of a wealth object or service have been considered; but in "official," "regulation," or "legal" prices, or values, it will occasionally be found that some constant elements of cost, etc., have been deliberately ignored, as for example, in the value of the silver rupee, which was officially issued for many years to H.M. Naval Service in India, in payment of wages, etc., at a much higher rate than its intrinsic value and cost price justified.

§ 25.—Valuation and Assessment

QUESTIONS as to correct principles of valuation and assessment applicable to taxation and rating have often engaged the attention of the Law Courts and Judges, especially as regards land and houses, fixtures and machinery, mines, railways, etc.; but, as more than one experienced Judge has observed, the law on the subject is very ill defined.¹ In the United States, despite the separate legislation in the several States, on these matters, there is said to be some uniformity as regards general principles, owing perhaps to the fact that the State taxation is in many cases levied on valuations and assessments of property of *all kinds*, and that from the varied experience and practice thus obtained, many true principles of assessment have been evolved, aided by comparison with the legislation of the different States, and it appears there is a considerable body of well-digested law on the subject set forth in the works

¹The British Parliament has also directed its attention to the subject, but with unsatisfactory results it would seem. Henry Fawcett, in his remarks on Local Taxation, wrote: "The laws of rating and assessment on railways, water-works, gas-works, and similar undertakings are simply a mass of heterogeneous and contradictory jargon, which no amount of human ingenuity can interpret."—"Manual of Political Economy" (1876), p. 601, etc.

published by T. M. Cooley, R. S. Blackwell, F. Hilliard, W. Endicott, Enoch Ensley, G. H. Andrews, etc., which might lead to further uniformity in valuations, etc.¹

The laws and regulations in the United Kingdom still governing valuation and assessment for imperial and local purposes, seem much to need revision by a commission of experts, one of its instructions being the consolidation and assimilation of the laws on the subject throughout the Kingdom, to serve as authority for the guidance of all assessors, assessment committees, and assessment appeal courts and judges.

The principle of appointment to these offices, committees, and courts, and the qualifications necessary to secure experienced and thoroughly impartial and independent assessors, controllers, and judges on such highly technical subjects, also appear fitting matters of reference to such commission. The composition of assessment committees and courts can scarcely be deemed satisfactory in view of the previous training and experience, and the present occupations of some of the members. It will be found difficult to convince the general public in a tax area that owners of land and houses therein, who are at the same time members of assessment committees, or local magistrates of the same district, are suitable valuing authorities or controllers of valuation in such tax area. When whole districts are found to be undervalued, the necessity of independent outside valuation control becomes more obvious. The London County Council has been steadfastly engaged in proving that certain important values in its area of government are not assessed for local purposes, or not fairly assessed, and probably it is its earnest efforts for assessment reform that has made this body so popular with the middle and wage-paid classes of London.

¹ The wealthy classes there, however, seem to be making strenuous efforts to discredit the property tax altogether, not to increase uniformity in tax objects and in assessment rules.

§ 26—The Production and Maintenance of Wealth and Value

THE greater the increase of wealth and value in a State, the easier should it be to provide taxation for Government purposes; and labour being the main factor in wealth production, it seems worth while briefly to consider the much-discussed problem of "Labour and its Interests," seeing how largely it affects the "Productiveness of Taxation."

§ 27.—Labour and its Interests

ECONOMIC labour has been well defined as "Mental and bodily exertion used wholly or partly to obtain useful results other than the pleasure directly produced by such exertion."¹ Labour includes ability and invention, qualities asserting themselves more or less in every kind of occupation, and enormously adding to labour's productivity.

Economists agree in viewing labour (with its ever-present but varying needs and desires), conjoined with Nature's elements and forces, and with capital (the accumulated results of past labour) as the great motive power in the production, maintenance, and improvement of wealth and value. As Lauderdale has said: "Though land, labour, and capital may be regarded as the sources of wealth, the wealth of mankind is alone increased by labour, whether performed by the hand of man, or by capital employed in increasing the quantity and meliorating the quality of the productions of Nature, and by labour, whether manual or performed by capital, employed in giving form to and adapting raw materials for consumption."²

But in the terms, "Nature's productions and raw materials," we must include human beings if we are to accept this doctrine in its full significance. Labour is quite as usefully employed in producing, maintaining, and improving the needful quantity and

¹ A. Marshall, "Principles of Economics" (1892).

² "On Public Wealth," pp. 347, 364, etc. Edin. 1819.

quality of labour and labourers in a community as in producing material wealth, such as food, fuel, dwellings, and other substantial objects, provided the labour and labourers are of the kind and in the proportion really needed ; this proviso equally applying to the producers of wealth in more material forms. Labour applied to the purpose of educating and maintaining a constant supply of God-fearing, honest, healthy, efficient labourers (the office of parents, ministers, teachers of all kinds, doctors, etc.), or of protecting and maintaining all forms of wealth and value, animate and inanimate, and otherwise enabling them to give their best uses and services (the proper function of soldiers, sailors, judges, lawyers, domestics, etc.), is quite as truly productive as that yielding more directly material results and termed "productive labour."

In civilised communities these less obviously direct producers are quite as necessary in their particular spheres of labour and restricted numbers as the so-called "productive classes," for they produce and maintain values, not perhaps as directly evident as material objects of production, but in the form of "personal capital," or industrial, etc., powers, imparted and developed by means of their particular labours, and resulting in manifold advantages to themselves and to others.

To confine the term, "working men," to those earning weekly or daily wages, seems as injudicious as it is erroneous ; probably as valuable as any are those forms of labour in which the mental exceed the merely physical (bodily) attributes, even including in the latter skilled co-operation of hand and eye ; for example, the labours of statesmen and legislators of repute, of judges, scientists, etc., who in numberless ways confer lasting benefits on their own and succeeding generations, and particularly on the wage-paid classes, by their breadth of knowledge, their sympathy, their forethought, constructive skill, ability to comprehend and solve complicated social problems, and by the constant sacrifice for the public welfare of their own personal ease, convenience, and interests.

Too often the wage-paid classes seem to forget that the labours of others outside their own trade or union are quite as necessary and valuable for the common good as of those in their own particular calling. Useful workers, whatever their occupa-

tion, have similar interests in their "personal capital" or special form of industrial activity, ability, and talent, being equally the care of the State, and a real bond of sympathy should unite them all in their efforts to secure a higher standard of comfort in their respective families and homes.

It seems also forgotten that capitalists are often most active and efficient labourers in their particular spheres of industry, and that capital—the accumulated results of past labour—largely helps in giving employment to workmen, and providing continuous occupation not only in times of severe competition or distress in industrial circles, but when legal obstacles, inclement seasons, and other temporary causes prevent labour being directed to cultivation of the soil, mining, and other accustomed industries.

Proudhon, Karl Marx, F. Engels, and other socialists, have represented as a grievance that *workmen cannot buy back the product of their labour with the reward of their labour, and, therefore, are robbed*; but, as De Laveleye has pointed out—they quite ignore the fact that *the object, or product, turned out is not solely the result of their labour*; there are also the raw materials, the machines, tools, and other capital employed, and, notably, the enterprise, invention, ability, and power of co-operative organisation possessed by the capitalist employers, or managers, so essential in securing success; and further, there is the important element of risk, so constantly present now in business and industrial enterprises, against which, employers, if prudent, must insure themselves, and with the lately developed tendency to strikes for higher wages, such risk is much increased, undertakings often being stifled by it, and capital driven to other places, involving much loss when in fixed and untransferable forms.

That labour should be as productive as possible is clearly an economic advantage. How can efficient production be best attained? The perfect freedom of individual labourers in contracting with employers touching work and its reward seems an excellent objective, but unless protected by public and private laws and institutions it may mean perfect freedom to starve. Labour's efficiency as a contracting party must be increased and secured. How can this be best effected?

§ 28.—Aids to the Efficiency and Productiveness of Labour

THE efficiency or non-efficiency of labour and its productiveness depend on and are affected by four chief causes:—

- (1) The degree in which nature and capital assist labour.
- (2) The education, training, character, and conduct of labour.
- (3) The sufficiency and efficiency of self-helping labour organisations.
- (4) The nature and extent of Government legislation for, and interference with, labour.

Freedom of contract might be presumed to be possessed by all classes of labour in a free land like ours; to thoroughly secure it, however, together with the other major interests of labour, the above four matters must be on a proper footing, for each of them affects in some measure the production of wealth, and, therefore, the funds from which public and private taxation are derived—meaning by private taxation the power possessed by some individuals and associations of exacting excessive rates of profit from the monopoly of land and other gifts of Nature, or of some necessary and widely-used product, liable to serious limitations in supply, causing excessive and continuous high prices for its purchase and use, including labour of special kinds in particular demand at certain times. I will briefly notice these four subjects in their order.

§ 29.—(1) The Degree in which Nature and Capital assist Labour

HAVING so recently noticed the advantage of easy access to the land, minerals, and other natural wealth of the kind, especially in times of keen competition and industrial distress, I will only add, that practically, to secure easier access, much more public control over this national heritage seems requisite. Nature offers her bounties to industrial labour, but individual rights, sustained by law or custom, prevent the co-operation; daily it

becomes more evident that the principle of land municipalisation or nationalisation, or some effective form of collective control over the use of this national inheritance, must be resorted to if we are to hold our own as a nation.

Land Courts for arbitrations have been introduced in Ireland, so the principle of State intervention is at work, though certainly not in its most equitable and satisfactory form. It seems neither politic nor right that the utilisation of the natural elements, land, mines, waters, etc.—national wealth of the most vital importance to industry and labour—should so often solely depend on the self-interest or caprice of some private individual or association.

Sismondi has eloquently described the many advantages of agricultural labour, and the experience of history confirms the truth of the axiom, that when this class of industry seriously and continuously declines in a country, as it seems to be doing in ours, that nation's political power and importance are surely on the wane. It was unremitting attention to the encouragement of agricultural industries that enabled Frederick of Prussia to raise his nation from its abject condition, though both climate and soil lent but meagre aid to such industry.

Amasa Walker wrote: "Capital and labour should be free to collect or divide, to turn to right or left, free in gift, purchase heritage. . . . All limitations of this right and power of capital and labour not required by public morality or security are useless and mischievous."¹

M. Turgot, besides publicly advocating absolute freedom in the action of capital and labour, practically carried it out as a principle when Finance Minister of France, and as far as permitted, with marked success.²

The importance of capital as an essential element in developing labour is freely admitted by political economists; no doubt there is a small group of transcendental theorists, chiefly of the German ultra-abstract and ideal type—Ferdinand Lassalle, Karl Marx, and others of later date, who deny this, the aim of whose gospel, however disguised the terms, seems simply—plunder. Some go the length of denying the economic need of

¹ "Science of Wealth," p. 70. Boston, 1866.

² See Daire, "Œuvres de Turgot."

interest as a recompense for the use of capital. To such as these—collectivists, as they are sometimes pleased to call themselves—one would be inclined to recommend, as an alterative prescription, a course of study of Dr Böhm-Bawerk's work, "*Kapitals und Kapitalzins*,"¹ especially chapters ix. and x. on Interest, with an occasional application to the opinions of the Austrian Professors, Carl Menger and F. Wieser, on Capital and its functions in Economics.²

The dead set made against capital and capitalists by many of the agitators of the day reveals a strange incapacity or unwillingness to comprehend the true causes of industrial success or failure. Capital as a means of exploiting³—bringing into most useful action—their labour, and supplying their daily needs whilst value is in course of creation, completion, and realisation by sale or use, must clearly be of advantage in extending their field of, and opportunities for, labour. When labourers, whatever their rank or class, acquire by diligence, temperance, and thrift, capital (wealth) of their own, they soon realise its many advantages, one being, their better position to secure consideration from their employers. In such cases labourers will often first employ their savings in buying the most suitable tools or instruments for carrying on their special industry, precisely what their employers do on a larger scale.

That there is such a thing as "the tyranny of capital over labour," is unfortunately too true,⁴ but it is to be met, not by denouncing capital and capitalists, but by sensible, practical remedies, two of which I will now only suggest by observing that "*Property has its duties as well as its rights*," and that "*Justice is the most important element in taxation*."

¹ Smart's translation. Lond. 1891.

² "Contributions to the Theory of Capital" (1888), by C. Menger, and "*Der Naturliche Werth*" (1888), by F. Wieser.

³ The term "exploit" has lately been used to express unfair advantage taken of the labourer, certainly not its original sense.

⁴ A. Walker, "*Science of Wealth*," p. 22. Boston, U.S., 1866:—"The cruel shallow selfishness of capital has often robbed labour by means of law. Labour impoverished, ignorant, degraded, has often turned upon its tyrant and laid in a common waste Church and State, letters and wealth."

§ 30.—(2) The Education, Training, Character, and Conduct of Labour

ALL will generally agree that education, in its widest sense, is of most decided advantage to a nation, but in applying it to individuals and classes, especially in applying a system of free education at the public cost, a host of highly contentious problems and difficulties arise—questions social, religious, financial, moral, legal, and economic.

It seems very questionable whether the higher classes of wage-earners—mechanics, miners, artisans, agricultural experts, etc.—are satisfied with the character of the education their children receive under the auspices of the State-aided and controlled Board and denominational schools. As this instruction is almost entirely gratuitous, labour can scarcely with good grace freely criticise the instructors and the kind of education supplied by the rate-payers, tax-payers, and patrons, however unsuited it may be to the needs of the pupils.

To take the place of apprenticeship, now almost obsolete as an educational method, some better organisation is needed. Parents as well as children suffer from the present system, which offers no substitute for the home, moral, religious, and technical training of the young, influences affecting their habits and conduct throughout life, and extending far from insensibly into their parents' homes, families, and lives. The present huge Board School classes afford no means of studying and drawing out the individual capacities and powers of scholars. All kinds of valuable personal ability must thus be lost or spoilt by such indiscriminate massing together of children in one dead level of instruction, much of which teaching is quite useless in most of their natural ordinary occupations; indeed, it is of a kind to induce them, in their inexperience, to look down on the unpretentious working powers of their parents, educated under the old system of early general usefulness.

One would like to see more independence on the part of workmen respecting their children's education, though certainly

to obtain it at the expense of others is a temptation too strong for some to resist. Wage-earners surely might organise themselves in localities, and subscribe funds for obtaining a more useful kind of education for their offspring—education more adapted to their future life, education in the widest sense, so needful in developing efficient, reliable, valuable *workmen, citizens, and subjects*.

Labour, like capital, has its duties as well as its rights, and instruction as to its duty of educating its offspring, and of considering others besides self, seems to need enforcement on the minds of all classes of the rising generation. Teaching in the practical wisdom of everyday life is always valuable for those who are to recruit the army of labourers in the many different fields of industry; teaching as to the value of rational exercise and recreation; the need of nourishing foods; of healthy, cleanly, orderly homes and habits; of clothing suited to their several occupations; of temperance, and many other matters tending to increase the efficiency of labour, and to make healthier and happier homes, and better citizens and subjects of all entering industrial life. With sufficient self-control and perseverance manual labourers of every kind could, like the rest of the community, secure all necessary educational advantages for their children without becoming dependent on the public rates and taxes, and, as a natural consequence, losing their rightful powers respecting the choice of teachers for their children, and the kind of education and instruction given at the rate and tax-supported schools.

§ 31.—(3) The Efficiency and Sufficiency of Self-helping Organisations.

ALL classes of manual labour could, with manifest advantage to their interests, support schools, and other institutions of the kind, for technical instruction in the different occupations and trades for earning a living. In constructing the framework of the primary schools for educating future wage-earners, its builders seem to have begun with the roof or thatch, such

earners usually having to win their daily bread as soon as possible, with but little time to spare for reading, writing, geography, grammar, etc.

It is of manifest importance that trades unions, guilds, and other self-helping organisations should be sufficiently strong and numerous to safeguard and promote labour's true interests, to insure perfect freedom to labour generally, and to prevent all illegal, unjust, and tyrannous proceedings on the part either of employers or employed. Confining their action to the defence of the best, the truest, and the most permanent interests of their class and its individual members, but not unmindful of the general or national welfare, these institutions form the most effective agency for promoting the efficiency of labour.

Agitators seeking their own selfish interests or ambition by fomenting discontent and discord amongst employers and employed, are naturally regarded with suspicion and distrust by honest labour, for too frequently they have proved merely talkers and shirkers from work. Directly labour interferes with the freedom of other workers, dictates to employers or capitalists as to the conduct of their business, or acts in defiance of economic laws and natural justice, it begins to imperil its own truest and most permanent interests, as well as those of the general community.

Examples of the healthy influences of trade unions appear in their action as benefit and assurance societies for accidents, illness, etc.; in obtaining and publishing information and statistics concerning the demand and supply of labour in the different markets; in promoting technical schools, etc., and improving the character of workmanship; in maintaining fair wages and safe and healthy conditions of labour in workshops, etc., and guarding against unsuitable labour and conditions of labour for women and children; in effecting arbitrations and conciliations in disputes between employers and employed; in promoting co-operation among members as producers and consumers; in calling attention to infringements of the Truck Acts (deductions from wages for supplies by employers), etc.

Examples of injurious action are shown in attempts to limit the natural supply of labour, or the amount and quality of the

work or produce turned out ; to fix maximum, minimum, equal, or general rates of wages ;¹ interferences with the freedom of labour to choose its own occupation, working hours, and employer ;² opposing improved methods of production ; obtaining unfair advantages over allied or other trades, etc.

Deciding on the necessity of a strike is one of their most responsible functions. Attended always by severe loss and suffering, chiefly affecting the wives and families of the workmen, strikes mostly prove futile, and long engender bad relations between employers and employed. On one side—the workmen's—it will be found that imperfect acquaintance with the economic conditions and financial possibilities of a trade and of an employer's business is a fertile primary cause of strikes and lock-outs, whilst, on the other side, it may be avarice or mistaken pride and unwillingness on the part of the employer to take sufficient trouble to explain the real economic or financial situation to his workmen ; this last cause has often prevented timely conciliation and compromise between the contending parties, whose interests should really be identical if each acts fairly and openly towards the other, and with common humanity and sympathy.

This unnatural warfare between labour and capital, though sometimes proved needful as a last recourse, is always attended by great personal and material loss, and when prolonged, often tears both employer and employed from their natural spheres of industry, and sometimes drives the particular business to other places, perhaps abroad, altogether breaking up suitable

¹ Trade unions and leaders of labour have often advocated general equality in wages. Professor Bonamy Price used to say equality of wages was "nothing short of a rebellion against the laws of human nature ;" "a revolution against the constitution of human nature." He said : "It violates the fundamental principles upon which the very conception of the word 'wages' depends, and upon which alone they can exist—liberty" ("Practical Political Economy" p. 257, Lond. 1878.) A fixed minimum wage in defiance of a general fall in the prices of consumption goods is scarcely less an economic absurdity. Employers might as fitly propose to fix a maximum wage.

² Mining and other underground and unhealthy or dangerous labour no doubt requires special restriction as to excessive working hours, but it seems unwise for trade unions to lay down rules on the subject on their own sole responsibility. It is rather a matter for local government arrangement at the instance of employers and employed.

industrial centres.¹ What grave responsibility rests on those having to decide in favour of strikes or lock-outs is evident!

§ 32.—(4) The Nature and Extent of Government Legislation for, and Interference with, Labour

WHETHER legislative interferences with labour and its interests assists or hinders its efficiency and productiveness is sometimes doubtful, for here we come in contact with the vexed questions of "Laissez-faire" and "Public Taxation, and the need for it."

The general guiding principle of non-interference except in cases of proved absolute necessity seems still to hold good, but in these relations between employer and employed the keenness of competition, and the extensive scale on which industrial enterprises have now to be conducted to ensure success, seem often to obscure or over-ride humane considerations and natural regard on the part of the employers for the health, safety, comfort, age, sex, and other important conditions of the industrial forces they direct, leading to excessive hours of labour, dangerous or unhealthy work and surroundings, etc.; and the State or local government, by means of laws and regulations for their protection, and inspectors, etc., to ensure their proper action, often usefully intervenes on behalf of the weaker, more ignorant, and dependent labourers in certain industries.

Referring to the Factory Acts, the late Dr Thorold Rogers remarked²: "Every legislative Act which seems to interfere with the doctrine of 'Laissez-faire,' and has stood the test of experience, has been endorsed, because it has added to the general efficiency of labour, and, therefore, to the well-being of Society."

But to pass so many special Acts (each needing long Parliamentary enquiry), to remedy so many particular kinds of tres-

¹ M. E. De Laveleye, in his "Elements of Political Economy," has remarked that a British statist (Mr G. F. Bevan) has calculated that 112 strikes have cost as many millions by loss of wages, that sometimes in a locality they have destroyed an industry entirely (Translation by A. W. Pollard. Lond. 1884).

² "Six Centuries of Work and Wages" (1884), pp. 527-28.

pass on labour and its interests, is not a satisfactory mode of procedure ; what is wanted is—a minister of labour, besides a minister of trade, or, better still, a minister presiding over both interests, with one branch for labour and invention, another for capital and trade, connected with labour offices and chambers of commerce, trade, etc., throughout the Kingdom. With local government registers in every parish for recording the demands for, and supply of, labour *of all kinds*, all classes of employers and workers would derive advantage from such an organisation, which would be free from the defect of *privileged-class* legislation so often urged against the Primary Education Acts.

A minister thus thoroughly in touch through both departmental staffs with the ever-changing relations and differences between master and men, capital and labour, would soon be in a condition to restrain oppression and trespasses on either side in their earliest stages, beside being of use to both in other ways from the position he would soon occupy as moderator between their respective interests, for, the impartiality of his department being once established, he would prove the most suitable arbitrator between them. The President might fitly represent labour, and the Vice-President capital. The office would be but a natural development of the Board of Trade system, and might fitly absorb the Agricultural Board, and represent the other industrial businesses and capitals in the Kingdom, and the newly emerging industries, with all (employers and employed) connected therewith. Members of Parliament representing labour interests solely would then be, more than now, an anomaly in constitutional government.

As employers of labour the State and local governments have many opportunities for showing proper consideration for the welfare of their employees—for instance, in providing other work for those displaced by the introduction of labour-saving appliances (inventions, etc.), those thrown out of employment by stress of weather, etc., but the less local governments *directly interfere* with economic problems, such as labour hours price work, free contracts between capital and labour, etc., the better will it be for them and Society generally, as history and experience have amply proved.

Professor H. Sidgwick says : "Touching the question of the political conditions most effective in securing the proportionment of reward to labour, this security has often been impaired by the fact that adequate protection of earnings from spoliation has not been provided, as Mill says, 'by the Government, and against the Government.' Lack of protection by the Government obviously involves the double detriment of discouraging honest labour, and encouraging the socially unproductive industry of plundering others, effects which are aggravated when the plunderers are armed with, or sheltered by, the authority of Government; but protection against the Government must be understood to include security, not merely against the arbitrary seizure of property, but also against such oppressive taxation as discourages the accumulation of wealth."¹

Government may intervene advantageously or otherwise. It may, for example, maintain the full value (gold standard) of the national coinage in which wages are paid, allowing no silver standard of value to impair the interests of labour, or, it may injuriously interfere by taxing labour in ways not fully realised by legislators. To tax the gross wage of any worker (however well or ill paid for his services) before he has first appropriated what is needful for the subsistence, etc., of himself and family, or to impose taxes *at specially heavy rates* on certain articles they needs must use, which is much the same thing, is like placing a weight on the springs of industry, a drag on the wheels of production, withholding the coal and oil needful for maintaining motive power and smooth and noiseless action, and in the case of some very ill-devised taxes, like throwing grit into the bearings of the industrial engine. The legitimate personal needs, tastes, aims, and feelings of all the nation's labourers, whether of high or humble station and abilities, have to be understood and regarded by those aspiring to govern and legislate for them. Respecting the nature of their incomes, and the way in which they are spent, it would seem wise for fiscal authorities in framing their tariffs to leave such matters severely alone.

¹ Professor H. Sidgwick, "The Principles of Political Economy," book i. p. 101, 2nd edit. Lond.

Another injurious form of interference by Government in our own country is, the patent law legislation, ostensibly to protect inventors. So heavy and disproportionate are the official charges on most inventions, in regard to their nature and their rapid or slow public acceptance, that British inventors are severely handicapped as compared with those in other countries, especially in the United States, the benefit of monopolised profits being far more speedily realised there, with advantage both to the inventors and the general community. Many are the inventors ruined by the excessive charges imposed by our patent laws, which seem framed rather for the benefit of the patent agents and the patent fees revenue than of the inventors. Is it not possible to contrive some plan of premiums or awards for inventors, to be provided by those more particularly and financially interested in the inventions or improvements discovered? By some such scheme, administered by men of high character, integrity, and incorruptibility, the whole community, producers and users alike, would promptly and economically reap the utmost advantage from the inventive genius of the nation, which, thus encouraged, would soon increase and correspondingly develop the productive capacity of the people. Even were this project found impracticable, the American plan of more moderate fees for registering and renewing patents might be adopted with advantage. But Government administrative services are seldom economic.

Further, by "private taxation," in the form of increasing rental charges, and other onerous conditions affecting land and its uses, and by other methods of creating monopolies and excessive profits, labour suffers more than is generally realised, as the late Mr Cliffe-Leslie forcibly illustrated in his "Essays on Financial Reform," and on the "Incidence of Imperial and Local Taxation."¹

The injustices thus inflicted are interferences with labour's free and full employment and reward, and with its legitimate use of methods and instruments for the production and exchange of wealth, subjects noticed under my two next heads.

How far the control of capital and labour in the pursuit of

¹ See "Cobden Club Essays," 1871-72, 2nd series, pp. 185-259, and "Essays on Political and Moral Philosophy" (1879).

their respective interests can safely be entrusted to State or central Government, to provincial or county councils, and municipal and lesser local bodies, is an important matter as regards taxation, the efficiency of local control largely depending on the governing authorities' intimate acquaintance with their particular local area's economic conditions and capabilities, and further, on these authorities being thoroughly representative in character, reflecting all the chief local interests, industrial, social, religious, etc. Respecting the choice of representatives for some of the more strictly local bodies, such as vestries, boards of health, works, etc., there seems much apathy on the part of the mass of electors, the selection of candidates often wholly resting in the hands of a small but active clique of a particular class. Until the representative breadth of such local bodies is improved, they can scarcely be deemed fitting agencies to whom to entrust wider powers and responsibilities. Even with the county councils there seems a danger that, with uncontrolled private monopolies for supplying local needs, such as water, gas, tram traffic, etc., they may be induced to undertake larger duties and responsibilities than they can properly discharge as unpaid agencies, and that borrowing on a grand scale for local projects may in time be developed.

The just limits of corporate action in the interest of labour by county and more localised governing bodies, seem to be—payment of the usual local rates of wages to their employees, attention to their welfare as regards reasonable working hours and other conditions of labour, and arbitration, at the instance of both parties, to settle trade disputes in their area; beyond these limits corporate action appears inadvisable, if not hurtful. The natural laws of demand and supply may safely be left to determine local industrial problems and differences, though doubtless they could be more promptly adjusted without recourse to strikes and lock-outs were there an improved ~~Trade~~^{Capital} and Labour department organisation of the kind just outlined, with local agencies in correspondence with it,¹ and were the minor local government bodies more thoroughly representative.

¹ Since the above was written, the Labour department of the Board of Trade has assumed somewhat wider functions, but still far from comprehensive enough.

§ 33.—The Division, or Sharing, of Wealth and Value

General Principles of Wealth-Sharing

MODERN economists generally concur in thinking that for reasons economic, social, moral, or political, wealth should be distributed among the members of a community with regard to the equitable deserts of those assisting in its production, distribution, circulation, and in the maintenance and improvement of its value; that it is not for the true interests of any nation that its wealth should accumulate in vast aggregates owned by comparatively few persons, and that the internal economy of a State must be gravely at fault when startling contrasts between the excessive riches of certain classes, and the abject poverty of the rest of the community are a constant and prominent feature,¹ but they condemn attempts to impose fixed bounds on the amount of wealth attainable by individuals, as tending to depress enterprise and limit the just reward of labour, invention, and other excellent and beneficial impulses.

Lord Lauderdale wrote: "Though we do not recollect any attempt to show why the opulence of the lower orders tends to accelerate the growth of national wealth, or any reasons to prove that it must have that effect, yet that fact, as appears from the following extracts, has not escaped the observation of the learned and ingenious.

¹ When addressing the Social Science Congress (Economic Section) in 1871, at Leeds, the late Mr W. Newmarch, referring to the irregularity of the assessments in the State of New York, incidentally quoted from a State Committee's Report, which noticed that: "One member of the firm of Brown Brothers & Co. of New York owned property to the extent of £16,000,000, and Mr Pierpoint of that city remarked that he could name thirty men in that State whose aggregate wealth was £40,000,000, or five millions more than the official value of all the personal property in the entire State."

No doubt land and other monopolised values accounted for much of these sums, enormously swelled as they were by keen competition. Examples of the kind have greatly multiplied since then in the States, and in the United Kingdom also a rapid increase in land and other values is constantly going on in the great centres of business, fashion, and pleasure, and the number of millionaires is unquestionably increasing, whatever the revenue returns may show.

“‘The device of King Henry VII. was profound and admirable in making farms and houses of husbandry of a standard—that is, maintained with such a proportion of land unto them as may breed a subject to live in convenient plenty and no servile condition, and to keep the plough in the hands of the owners and not mere hirelings.’”¹

“‘Above all things, good policy is to be used that the treasure and moneys in a State be not gathered into few hands. For, otherwise, a State may have a great stock and yet starve. And money is like muck, not good except it be spread.’”²

“‘When commerce is in few hands, one sees some very large fortunes in the midst of general poverty; but when it gets into a greater number of hands, we see general opulence and few large fortunes.’”³

Aristotle considered that the middle classes should preponderate in a well-organised State.⁴

Large aggregations of property usually tend to impair, if not destroy, in their earners’ or their successors’ minds those wholesome incentives to industry, invention, and other means of obtaining the necessities and comforts of life, for their owners have already secured these for future as well as present needs, and too often the sole inducement left for exertion is, the desire to equal or excel others in wealth, or more commonly in extravagance of expenditure, and the exciting or luxurious pursuits and habits of fast or fashionable life.

It scarcely needs the arguments of a De Laveleye to convince the thoughtful that extravagance or profuseness cannot really benefit the masses.⁵ Economy soon becomes a neglected virtue, the master’s eye fails to mark and rightly appreciate the important details of an overgrown business, of widespread estates and interests, and the income, far in excess of ordinary legitimate wants, tends either to be spent in extravagant pleasures and luxuries, propagating further extravagances in ever-growing circles, so that invention wearies in its efforts to

¹ “Bacon’s Essays,” p. 81.

² *Ibid.*, p. 39.

³ “Discours de M. De Voltaire à sa reception à l’Académie Française.”
Lauderdale, “Inquiry,” etc., pp. 350-51.

⁴ Politics IV., Schedule 6.

⁵ “Le Luxe.” Verviers, 1887.

furnish fresh channels for fantastic expenses, or to be amassed by its owners as further capital, with the all-absorbing anxieties and anti-social influences so often attending the lives of millionaires, and occasionally admitted by them.¹

That there are splendid exceptions to this tendency we sometimes become aware, but the experience of most men of mature age must recall many more instances of large fortunes (particularly inherited ones) dissipated without advantage either to their owners or to the general community, owing to the extravagant and debasing character of the expenditure induced or developed by their abnormal amount.²

In countries where wealth is more evenly diffused, experience again proves that more real and substantial happiness prevails, and, as a natural result, apparently, less anxiety to amass large fortunes.

With the communists, many of whom profess to be influenced by Christian doctrines (especially in regard to the sharing of wealth), one may perhaps go the length of admitting that, from an ethical, if not an economic point of view, an ideal system of social exchange would seem to be reached when every member of society was content to receive the mere actual net cost of his or her services, or of the goods supplied to others of the community by him or her, or by the more ideally perfect plan of mutual gratuitous services, these last, however, being anything but economic exchanges of values; but until perfect knowledge, perfect justice, perfect morality, perfect contentment, and other important perfections become the constant attributes of all the members of such a society, we cannot expect to realise this ideal, and must be content

¹ Sismondi has well observed: "La richesse se réalise en jouissances; mais la jouissance de l'homme riche ne s'accroît pas avec ses richesses."—"Études sur l'Économie Politique," i. 15. Geneva, 1837.

² As examples of extravagances induced by abnormal personal wealth may be noticed the extensive horse-racing establishments and constant racing engagements now in vogue, with the demoralising attendant practices of betting and gambling, which spread their evil influences down to the lowest social circles; also the more recently developed craze for "globe-trotting" expeditions on a grand scale, no less injurious economically regarded, for they carry abroad wealth much needed at home to develop industrial schemes for aiding the unemployed, etc., they are, in fact, more injurious, because the most wealth-scattering form of absenteeism.

to follow the practical methods taught by experience of human nature in order to secure the greatest freedom of exchanges in personal services and goods, and to be guided by the unrestrained action of the natural laws of demand and supply, competitively to determine values, and thereby, the equitable share of production to which each contributing member is entitled, supplementing these methods as far as possible by kindly consideration on the part of the well-to-do classes for the welfare of those not so fortunately circumstanced as themselves.

But communism as usually understood and preached means, as M. Bastiat has truly observed, "the death of all labour, economy, prosperity, of all justice, of all society," it confines its attention almost exclusively to the *sharing of wealth*, which wealth is soon found to mean, other people's wealth only.

Every year, however, it becomes more evident that the economic question of "wealth-sharing" needs more searching analysis; schemes for sharing in co-operative production and trading, for the exclusion of pauper labour, allotments of land, and similar palliative measures, useful no doubt in their way, seem quite inadequate in face of the present anti-social tendencies, and the deeply rooted dissatisfaction of the masses. For effective and permanent remedies, I believe we must rely more on wise re-adjustments of the burdens of taxation, shifted in the course of the last three hundred and more years from the shoulders of the owners of natural wealth and personal property in most forms, to those of labour and the hirers, users, and consumers of these two kinds of wealth, by means of excise, customs, and other inequitable forms of public taxation, and by the now swiftly growing burdens of "private" taxation, resulting mainly from oppressive and unjust land legislation, introduced by Parliaments almost wholly composed of landlords and capitalists, and their relatives, nominees, agents, or dependants, whereby the rights of successive generations of Britons to share in the regulated use and benefit of their native soil, and mineral and other natural wealth of chief importance in earning a livelihood, have gradually been lost to them, and been monopolised by comparatively few private and privileged persons and associations.

§ 34.—Brief Analysis of the Different Kinds of Income or Revenue shared.

THE forms in which the values arising from production are shared amongst those contributing to produce, maintain and circulate them have usually been classed by economists under four heads:—

- (1) Wages, pay, salaries, fees, etc.
- (2) Profits.
- (3) Interest.
- (4) Rent—economic and ordinary, the latter closely resembling interest.

But another head of income is now generally recognised by modern economists. It is:—

- (5) Taxation, or Government's share, to be specially treated later on; and closely allied to it in nature are the incomes so largely developed in modern times arising from premiums to insure recompense for material or personal damage, loss, destruction or death from disease, accident, fire, storm, fraud, etc.

These and other forms of insurance payments to secure annuities, etc., at future dates will be noticed when I have dealt specifically with Taxation.

I will now analyse the four first-named incomes in their order. It will enable us more fully to realise their unsuitability for uniform taxation, and the many practical difficulties to be encountered in arranging any plan of taxing incomes generally.

§. 34a.—(1) Wages, Pay, Salaries, Fees, etc.

THESE incomes are mostly received in money, or orders for it, though the use of house, garden, furniture, etc., and food, clothing, medicine, medical and other personal services supplied, often form part of their earners' emolument, sometimes indeed their sole income. In some professions and businesses, the acquisition of practical knowledge and experience is the sole income gained by pupils for their labour for a year or two, an immaterial though often a very valuable one.

Professor A. Marshall, referring to the nominal and real price or wage of labour, quotes Adam Smith's dictum: "The real wage of labour consists in the quantity of the necessities and conveniences of life that are given for it." It is obviously suggested that quality and value besides quantity must be taken into account."¹

Wages and salary incomes do not as a rule suffer from employers' financial embarrassments like fee, interest, and profit incomes do, for, by means of capital, wages are usually paid long before losses are ascertained, and in bankruptcy cases, wages claims are mostly paid in full. But, on the other hand, wage-earners are very liable to be victimised by excessive deductions from their growing wages for damages done, for supplies of food and other goods, for irregular attendance, etc., calling for public control in some cases on behalf of employees, to secure compliance with the provisions of the Truck Acts and other laws for protecting labour.

Wage- and fee-earners mostly exchange their services for their wage only, but frequently they also supply material values or the use thereof, and occasionally the services of others besides those of the immediate fee- or wage-earner and bargainer are given, such transactions then assuming more the form of profit incomes. This appears in dentists' fees including mechanical work, and in many compound services and supplies paid for by fees or wages.

Under ideal conditions, wages, fees, salaries, pay, etc., should be, and practically often are, high enough to cover the economic cost of the earner's current needs, a proportion of the cost (premium, etc.) of the education, training, etc., that enabled him to earn his livelihood, and a proportion also of his needful provision for the future when his earning powers fail; seldom could such calculations be practically worked out as facts, but consideration of the subject may help us better to realise the immense difference between these earned incomes, with all their contingent outlay and liabilities, and those of other kinds, as regards their respective ability to bear taxation.

¹ "Elements of Economics of Industry." Lond. 1892.

§ 34b.—(2) Profits

THESE incomes are derived usually from a combination of sources and causes, such as differences between wages given and service value received, and *vice versa*; between services and values given and received; between interest, insurances, and rents given and received, and from induced and spontaneous or automatic increases of values, these incomes and values being at times reduced by sets-off of losses in them and other forms of exchange and changes of value.

Francis Walker has analysed profit into interest, insurance, ordinary wages of management, and profits resulting from added efficiency and value;¹ but it will be found that they spring from more numerous sources, as I have above tried to describe in comprehensive terms.

Sir Egerton Brydges has remarked: "Profits are excess of price above cost. . . . The basis of price is cost of production, including capital, interest, and labour, bodily and intellectual. All beyond this and which constitutes profit, is formed of more complicated and varying considerations (elements). It arises from the proportions between supply and demand. Price cannot long continue below the cost, including moderate and average profit, because, without these, production would cease. But it may long continue above cost, and give great partial profits, so long as the amount of the supply, from whatever insurmountable difficulty in reaching that amount, is kept below the demand, such as high profits from fertile soils in the shape of rent, high profits from partial machinery, monopolised under the security of a patent."²

Professor Bonamy Price took much the same view of profits.

¹ "Political Economy." Lond. 1883.

² "The Pamphleteer" (1822), vol. xx. p. 487. Article—"What are Riches?"

§ 34c.—(3) Interest

THIS income is material wealth received in exchange for the use of property or goods, often including payment for partial obliteration of their value (fair wear and tear), arising from their use; such use means loss of the owner's full use and enjoyment thereof, sometimes more than ordinary loss in value by use, risk of damage, destruction, loss by defalcation, carelessness, etc., and even loss of time and expense in recovering such goods or their value.

A certain economist distinctively terms interest the reward of superior ability or sagacity, but this may be said of wages, profits, and rents, economic and otherwise; *all* incomes are more or less increasable by their earner's superior ability.

§ 34d.—(4) Rent, Economic

THIS income is almost entirely material wealth, but sometimes includes personal services, and occasionally, such services only, exchanged for certain exclusive beneficial rights of occupation, use, enjoyment and productive employment of the national land, mines, and commonweath, naturally and constitutionally the inalienable property of the nation and its successive generations.

§ 34e.—(5) Rent, Ordinary

THIS income is mostly material wealth exchanged for the use of property and value sunk in or constructed in or on the national land, shores, and waters. It closely resembles interest, but when blended with economic rent becomes practically indistinguishable from it, though this confusion is by no means a necessary consequence.

All these incomes represent and are based on exchanges of wealth and services for other forms of wealth and services, and their relative exchangeable power varies with the demand for, and supply of, such wealth objects and services, but where there are continuous or settled contracts for these exchanges, such as

legal or customary rates of pay, wages, interest, dividends, rentals, etc., general rates of exchange will not vary so much with changes in demand and supply, being less dependent on open-market values.

The lives and happiness of all persons depend on incomes material and immaterial, but only earned incomes—incomes the subject of exchanges—represent the relative economic values of individual services; a large proportion of the incomes enjoyed by the aged, the young, paupers, and such like, are not dependent on exchange value, or dependent to a small extent only, for affection, pity, beneficence, etc., are the factors determining their share of the general production.

§ 34f.—(6) Immaterial Incomes

THIS analysis would be incomplete without some notice of immaterial incomes. Infinite in variety, they respond to the ever-differing physical, mental, and higher wants, tastes, and aspirations of individuals, becoming, from daily acquisition and use, as needful to their well-being as their very subsistence, shelter, and clothing.

Material incomes are daily being exchanged for *immaterial* ones, such as bodily, intellectual, and other acquirements, enjoyments, comforts, etc. Immaterial (like material) incomes are not always subjects of exchange, but unless they are fully recognised as real entities, we are not in a position to fairly solve the problem of the Equitable Taxation of Incomes. I shall notice this subject when examining Income as a tax-basis (§ 96).

Modern economists are now analysing more closely the composition of incomes; even from the brief analysis I can find room for here, it will be seen how the different incomes tend more and more to coalesce with, and run into each other, as social and industrial relations become more complex with advancing civilisation and invention. This is most observable in profit incomes. Rent incomes, economic and ordinary, are usually merged together, and there are common points of resemblance between some kinds of wages, rent, profit, and interest incomes. It will be found, too, that incomes often

more or less represent repayments of advances of material wealth, and of human exertion, the former being instanced in annuity incomes, where principal and interest are blended together in one payment; and the amount of fees, wages, and other like incomes often really represent repayments of former expense and personal effort in acquiring professional, etc., experience, however impossible it may be to show what proportion of a man's emoluments are due to past, and what to present outlay and labour.

§ 35.—Economy in liberally rewarding Labour

THE subject of wealth-sharing must not be dismissed without noticing the economic advantages of liberally rewarding labour's services by means of wages, pay, salaries, fees, etc.

Political Economists—Adam Smith¹ and Sismondi, prominently among the earlier writers, and Thorold Rogers, Marshall, Nicholson, Foxwell, and Sidgwick, among the more recent British exponents of the science—have specially dwelt on this point, and represented the increased zeal and industry shown by workmen, the greater interest and economy observed in their labour, especially when sharing in the profits in further ways, the saving of the middlemen's profits, the improved relations established between employers and employed,² and other beneficial results, “converting the workman from a dissatisfied and often dishonest drudge into a contented, a willing, a zealous co-operator—a co-partner with his superior,” etc.³

¹ Adam Smith wrote: “The liberal reward of labour as it is the necessary effect, so is it the natural symptom of increasing national wealth. The scanty maintenance of the labouring poor, on the other hand, is the natural symptom that things are at a stand, and their starving condition that they are going fast backward.”—“Wealth of Nations” (1811), book i. pp. 98-99.

² Stanley Jevons argued that increased wages to the workers of a nation did them permanent good only when they promoted increased education, thrift, and temperance, but I can see no grounds for thus limiting the advantages. The increased bodily and mental strength, cheerfulness, and content of the worker *and of his family* is an immense boon, not only to themselves but to the general community, and is attended with permanent advantages to the nation in many ways.

³ David A. Schloss, F.S.S., *Fortnightly Review*.—“The Labour Problem” (October 1889).

It is a significant fact that the best examples of industrial co-operation are those where the employer is found thoroughly identifying himself with the welfare of his workmen, with their health, their homes, their recreations, their children's education and advancement in life, and sometimes even with the spiritual welfare of the industrial colony, around him, matters, however, demanding much judgment and tact on his part. Co-operative colonies on a large scale like these are flourishing in France, Switzerland, and Germany, also in our own and some other countries, as noticed by Sedley Taylor in 1884, by F. Paine Gilman in 1889,¹ by Professor Nicholson in 1890, and by others who have examined this question of profit-sharing, and the harmonious co-operation of capital and labour.²

The secret of successful profit-sharing is, that it gives such a stimulus to the workmen as to create their extra profits, by increasing the output or its value, and reducing its cost; it is distinctly an economic process.

It has sometimes been shown by means of statistics that the wage-paid classes are much better off than formerly. Limiting the statement to the higher standard of comfort in some respects enjoyed by all classes now, this may be admitted; but when the relative social condition of the wage-paid, and the middle and upper classes is compared, and we examine their *entire careers as families*, including the closing years of life, we shall find there is still much that needs improvement. How many hard-working people, from no fault of their own, end their days in extreme poverty or the workhouse. But the statistics relied on to prove the better state of the wage-paid classes do not always present for comparison consumption goods of precisely similar quality. For instance, dress is shown to be cheaper now than formerly, but the articles of clothing compared, though nominally the same, are different in quality. The cloth, the boots, the hose, the linen, and other productions of former days, were far more substantial and lasting than those

¹ Professor in Baltimore University, U.S.A.

² In a recent work—J. Schoenhof, "The Economy of High Wages," Lond. 1892—the reasons for such economy have been clearly explained.

now sold. Further, there is much more physical exhaustion of the entire labouring family, for the hired labour of the wife and children is now often required to obtain the needful earnings, and home services and comforts suffer in consequence; these and other considerations tend to modify one's opinion of the better condition of present-day wage-earners.

A quotation from Sismondi on the growing wealth in his day, and its imperfect distribution amongst its producers, seems to reflect faithfully some features of the present position of wealth-sharing:—

“Is each man in his own sphere, we shall ask, more secure of his subsistence than he was before this great development of industry? Has he more repose at present, more security for the future? Does he enjoy more independence? Is he not only better lodged, better fed, better clothed, but has he gained by the development of the irrational powers more leisure and more aptitude for intellectual enjoyments? Has the ratio between different social conditions changed to the advantage or disadvantage of the masses? Are those who occupy the lowest steps of the social scale more or less numerous than formerly? Are there more stages than formerly between the rich and the poor, or fewer? And, Is it more or less easy for the latter successively to pass over them? . . .

“The true economist will say . . . that the producer should be considered first of all. Labour is, in fact, the creator of all the benefits which man enjoys, the source of all his income. Daily labour is the income of the poor, the fruits of accumulated labour give an income to the rich. The division between them is not always equitable, but if the balance must lean, it is desirable it should be in favour of the poor—that is, the interest of the greatest number, it is at the same time the interest of the weak; the more amply labour is remunerated, so much the more are the necessities and comforts of life secured to the great majority of the nation. . . . The common interests of Society demand that the agricultural producer should be amply remunerated, that he who raises the fruits of the earth should retain a sufficient share of them; without this we cannot reckon either on regularity of production, on stability of price, or on being independent of foreigners in time of war, and this perfect

certainly of subsistence is of more importance than low prices to the consumer himself.”¹

Some of these questions, I believe, can be satisfactorily answered in British homes, but others still await a proper solution of the difficulties besetting them as social problems. The fierce struggle now waging for bare subsistence, the desperate competition for even small profits in many businesses and occupations, the numbers of highly educated men and women compelled to engage in work far below their industrial qualifications and capacities, owing to the present rivalry for employment, the mass of unskilled labour offering in the markets, the invasion of men's occupations by women at lower wages and from sheer necessity, the huge armies of paupers supported wholly or partly by public taxes and rates and private beneficence, and even the very *proposal* to provide public pensions for aged workers, sufficiently prove that a more equitable division of wealth is the most important and urgent problem economists have to solve, and we must trust that the national councils will not adopt, at the instance of proletariat voters, mere temporising expedients and unjust methods of relief from this social *impasse*, probably entailing further sacrifice of equitable and economic principles.

I conclude this subject with a quotation from the late Charles Dunoyer, an ethical economist, and a keen supporter of the interests of the working classes: “The chief causes of poverty proceed from the unequal division made at first of wealth, by the original dispossession of the most numerous classes of society, from the state of servitude in which they were kept for centuries, from the taxes by which they are crushed, from the laws which prevent them from getting the best possible return from their labour, and from all the vicious institutions which affect them in their subsistence or their morality. However, the condition of the lower classes does not alone proceed from the wrongs the higher part of society may have been guilty of towards them; it has also its root in their especial vices, their apathy, their heedlessness, and their

¹ “New Principles of Political Economy” (1826). Mignet's translation, pp. 131, 161, 163.

ignorance of the causes which make the price of labour rise or fall. Their distress is at least as much their own fault as that of the classes that may be accused of having oppressed them; and if society should be re-established on more equitable bases, if the strong should abstain from every sort of domination over the weak, I do not doubt that there would still be developed a more or less numerous class of miserable beings at the bottom of society.”¹

§ 36.—Is there a Distinct Wages Fund?

As regards the existence of a specific “wages fund” suggested by some economists, it seems gradually being realised that public and private riches, *as a whole*, constitute the only “fund” from which, and into which, all expenditures and incomes issue and enter, including, of course, “wages,” and that it is not British wealth only, but the universal wealth of the world which supports British and other national industries, and provides the wages, etc., necessary, in proportion to the volume of their mutual commerce and financial relations; this consideration enhances and confirms the economic importance of absolute free exchange between nations and individuals, my next subject.

A “wages fund” naturally implies separate funds for other incomes and expenditures, rents, interest, etc. This reflection leads me to agree with Professor S. Newcomb’s view—that wages, as a part of the national dividend, is to be regarded more in the light of a flow from a source, than of a special fund destined or provided to recompense labour only;² in short, wages must be directly viewed as one kind of expenditure from a variety of sources, scarcely to be termed a “fund,” as not confined to that one form of payment—wages, but to all kinds of expenditure and investment.

¹ “New Treatise on Political Economy.” Paris, 1870.

² See his “Principles of Political Economy,” pp. 316–25. New York, 1886.

§ 37.—The Exchange and Circulation of Wealth and Value

EXCHANGEABILITY and Transferability—two important elements affecting the value of wealth and services—are clearly not matters to be lightly tampered with by empiric tax laws. It is evidently necessary that labour and wealth should freely flow into and along their natural channels, and that no artificial restraints should hinder their free action and co-operation. As Colonel Torrens has observed: “The less the transference of property is obstructed, the more rapidly will capital flow from the channels in which it is in excess to those in which it is deficient, and the shorter will be the period during which commodities will be brought to market in undue proportions.”¹

Bastiat, in powerful language (translation would impair its force), has remarked:—

“L’Échange est un droit naturel comme la Propriété. Tout citoyen qui a créé ou acquis un produit doit l’avoir l’option, ou de l’appliquer immédiatement à son usage, ou de le céder à quiconque sur la surface du globe, consent à lui donner en échange l’objet de ses désirs. Le priver de cette faculté quand il n’en fait aucun usage contraire à l’ordre public et aux bonnes mœurs, et uniquement pour satisfaire la convenance d’un autre citoyen, c’est légitimer un spoliation, c’est blesser la loi de justice! C’est encore violer les conditions de l’ordre; car quel ordre peut exister au sein d’une société où chaque industrie, aidée en cela par la loi et la force publique, cherche ses succès dans l’oppression de toutes les autres?”²

Free trade is natural, and therefore the best; if we defy Nature’s laws we must expect to suffer the consequences. Protection simply means the protection of monopolies and monopolists.

¹ Col. R. Torrens, F.R.S., “Essay on the Production of Wealth,” p. 429. Lond. 1821.

² *Journal des Économistes*, 15th May 1848; and “Œuvres de F. Bastiat,” pp. 292, 320, etc. Paris, 1860.

§ 38.—Free Trade, Free Business Transactions, Forms, Documents, Etc.

THE late Sir Fitzroy Kelly, advocating in the House of Commons the repeal of the malt duty, said: "Real freedom of trade consists not merely in the repeal of protective duties, but in the right to buy, to grow, to manufacture, to import, to export, to use, to exchange, to sell, unrestrained by any fixed or arbitrary law.

His definition logically extends to all objects of trade and exchange, not to malt only, and to all business contrivances. The terms "free trade", "free transfer, credit, contract, and exchange documents," "free transit", "free banking," "free currency," simply mean freedom from State and local government interference, taking the form of confiscations of large shares of the business profits without returning corresponding advantages, and of increasing the cost and limiting the freedom of such transactions.

Free exchange comprehends all these natural acts and contrivances.

But, besides the levy of severe customs, excise, licence, stamps, and local taxes and dues, there are other ways of interfering with freedom of exchange and business, and adding needlessly to its cost. Officialism, public and private, acting independently or under authority, may enforce tedious and useless processes, forms and form-filling, personal attendance, and other time-wasting devices quite as detrimental to free exchange as fiscal tolls. Freedom from needless obstructions of the kind, including complicated tariff rates and conditions, is all important to business men. Opinions have been expressed in more than one commercial centre that the slow growth and the falling-off in so many branches of our foreign trade is due to the vexatious rules and requirements of the Merchandise Marks Act. The detailed administration of this and other laws of the kind left much in the hands of public and local government officials, imposes many extra duties on merchants, manufacturers, etc., causing great loss of time and money without advantage to any but the extra

clerks required. Legislation and administration like this must certainly tend to provoke retaliatory measures abroad.

The late Professor Stanley Jevons observed: "As no one will buy a thing unless he expects advantage from the purchase, therefore perfect freedom of trade tends to the maximising of utility."¹

Man from his very nature being an exchanging animal, the power of free exchange seems his natural right.² The onus of proving that impediments should be put in the way of freely exercising this right rests, then, with those advocating protection, reciprocity, fair trade, commercial treaties, and other half-hearted action, falling short of perfect freedom for our people to barter with those of other nations, whatever their laws affecting their trade with us.

Respecting free trade, David Buchanan remarked: "And the same free exchange which takes place between individuals, in consequence of the division of labour, is also rendered necessary between nations by that diversity of soil and climate which leaves with each a surplus of its own peculiar produce, and a deficiency of the produce of other climates. It is by free exchange that these inequalities are corrected, that the bounties of Providence are distributed in a fair proportion among all nations, and that in one spot is concentrated, by means of trade, the diversified produce of the earth. . . . The only encouragement which trade requires is a free market for its produce in which the best articles will always command a ready sale."³

Earl Lauderdale, referring to protective taxes, said: "Impediments therefore to commercial communication, whether by prohibitions or taxation, must ever retard the growing opulence of mankind, as much by discouraging the industry of the country whose folly occasions them, as by any effect they can have on the industry of the country they are meant to injure."⁴

¹ "Theory of Political Economy" (1879), p. 157. See also p. 91.

² Adam Smith said the inclination to exchange was one of the most important marks distinguishing man from the brute.

³ D. Buchanan, "Taxation of Great Britain." Edin. 1844.

⁴ "On Public Wealth." Edin. 1819.

The London merchants' petition for free trade, presented 8th May 1820 to the House of Commons, admirably states the broad principles of Free Trade.

I will next quote some comments of later date on free trade, and first, a short but pregnant inference of Sir Robert Peel in 1845, when, noticing the all but untaxed import of foreign corn—one shilling a quarter then—he observed: "If the doctrine is good for corn, it is good for everything else."

Then, John Ramsay McCulloch, an economist of economists, suggested in the year 1860,¹ "that rates of customs duties should be proportioned to the cost of the articles on which they were laid," in other words, proportioned to their value, though he was opposed, it appears,² to *ad-valorem*, import and export taxation as a principle, on the ground both of injustice and inconvenience. He quoted, in support of his views, the opinions of that renowned financier, Lord Overstone, delivered in the House of Lords on 15th March 1860, in the debate respecting the treaty of commerce with France, and the repeal of our customs duties on many articles of import from that and other countries. "It is important," said Lord Overstone, "that the country should clearly understand what is the true meaning of 'free trade.' It means trade freed not from those necessary duties which are raised only for purposes of revenue, but trade freed from all charges or duties which arise either from an ignorant jealousy of other countries, or from an equally foolish impression that it is our interest to foster unnatural productions in our country rather than to receive them from other countries, where, being produced under more favourable circumstances, they can be obtained in larger quantities, of better quality, and at a lower price. This, I apprehend to be the true meaning of 'free trade.' . . . My Lords, are not the duties now proposed to be repealed in the full sense of the word *essential* to the revenue, and can we consider the substitute suggested, viz., a heavy income tax, as less objectionable? Every one of the duties proposed to be abolished in consequence of this treaty might be retained without any violation of the principles of free trade."

¹ "Encyclopædia Britannica," 8th edit.; "Taxation," p. 2^o.

² *Ibid.* p. 58.

Clearly he perceived, as many others then did, that there was something very anomalous in permitting the importation of silks, laces, satins, and luxuries of almost all kinds duty free into this country whilst we imposed heavy taxes on imports of tea, coffee, cocoa, and tobacco—articles used largely by the masses yet scarcely competing at all with home produce.

Mr J. G. Hubbard, M.P., another eminent financier,¹ referring to “free trade,” at the Social Science Congress in 1862, said: “Their sudden conversion from protectionist principles has impelled prominent politicians into extravagant proceedings which they term ‘free trade,’ but which, wholly unneeded for the freedom of commerce, result in the loss of unobjectionable means of raising the revenue. Free trade means a trade unobstructed by prohibitive or varying duties, and unembarrassed by duties favouring certain local producers to the detriment of other producers, or to the injury of consumers. A free trade must also be one whose operations are unimpeded by fiscal regulations and charges, either serious in their pecuniary pressure, creating liability to penalties, or consuming time and labour which might be more beneficially employed.”²

After many years’ careful examination of this question, I am convinced that a *via media* can be found in which the weighty opinions of these eminent financiers and *practical business men* can be reconciled with the views of those favouring free-trade, imperfectly carried out though it be, and still more, with the opinions of those who see the need of a far more equitable tax system.

¹ The late Lord Addington, a widely known London merchant of great experience, a governor of the Bank of England, and for many years one of its most prominent directors.

² It may here be remarked that it was reflection on these four last-quoted authoritative opinions which induced me, some thirty years ago, to take up the study of taxation, chiefly to ascertain whether any method could be devised for raising public revenues from such important and perennial sources as imports and exports, without violating the principles of free trade thus laid down by such practical authorities, such past-masters in commercial and public finance. The enquiry led me to the conclusion that far more extensive *tax-sources* would be necessary to maintain the needful revenue if protective rates were abandoned, and the present work is but the outcome of that enquiry.

—H. L. R.

§ 39.—Freedom of Transit and Conveyance from Special Taxes

THE only further point needing comment concerns the unimpeded circulation, transit, or carriage of persons and goods, more especially over railways, unimpeded, that is, by Government taxes and needless State intervention in other forms.

The monopoly enjoyed by the Post-office in the businesses it engrosses does not, in some respects, represent economic freedom; but I shall discuss this under the head of "Public Services and Expenditures," (§ 48) as relating to public finance.

The Railway Passenger Tax, imposed on some classes of travellers for no reason apparently but that of quietly raising revenue, regardless of economic principles, is an example of this interference with subjects' rights of unimpeded transit in their pursuits. As the late Sir Morton Peto observed: "The tax is false in principle, because anything that limits or obstructs intercommunication must be disadvantageous to a nation, and wrong in application, because it is in effect a tax on the receipts of the railway companies, which are already subject to the income tax." ¹

A wretched revenue of some £270,000 a year is thus exacted, but much inferior train services, and the trouble and expense caused in the traffic arrangements by the State's interference and the Tax Act's requirements, represent a much larger annual loss sustained by the travelling public, the companies, and the general community. The Secretary of the Railway Tax Abolition Committee (Mr Collet) considers there is a public loss in railway traffic facilities of as much as £8 or £9 for each £1 of tax thus paid, and that when the tax is repealed this will become more evident than was the great economic public gain from the reductions in 1884, for the advantage from a total repeal of the tax would be much more pronounced.

¹ "Taxation : its Levy and Expenditure," p. 162. Lond. 1863.

But the uneconomic effects of some railway companies' excessive and disproportional charges for carriage of goods over their lines needs notice, a policy deemed necessary, perhaps, to raise their profits so injuriously affected by the State's exactions and interferences.

The railway companies, in combination, become a huge monopoly, wielding sway over the nation's most important inter-communications, and call for more control on behalf of the public's rights of transit for themselves and their goods, or some form of defensive association strong enough to safeguard the equitable interests of all using the lines.

As State organisations, the Board of Trade and the Railways Commissioners to some extent represent these interests, but what is really needed is the presence of some representative of the general public, or some Government official of sufficient standing and character on the board of each railway company, to watch the current interests of the public in the various branches of railway administration, and bring before the board or its officers their reasonable complaints and practical grievances and suggestions; and the appointment of such controllers for certain limited periods of time might, with advantage, depend in some degree on public election.

§ 40.—The Consumption or Use of Wealth and Value

UNDER this branch of Economics are best considered the thrift or wastefulness shown by mankind in using the material and personal wealth and talents bestowed by the Creator on them for their welfare and enjoyment, and in extracting the utmost utility from them. In some aspects Consumption may be viewed as the very *alpha* and *omega* of Economics.¹

¹ Some economists treat the science under two heads only—"Production" and "Exchange" of wealth; but I have followed the more usual arrangement under the four heads—"Production," "Division," "Exchange," and "Consumption," as better adapted to logical analysis, especially when prefaced by sections on "Wealth in certain economic aspects," and on the "Notation and Measurement of Wealth and Value."

Amasa Walker has compared the living organism of a tree to the leading heads of Political Economy, the roots spreading underground typifying "production," the trunk, "exchange" and "distribution," whilst "consumption" is represented by the "boughs and branches from which are given off every variety of foliage, flowers and fruit of use and beauty," reproduction re-appearing in course of time from the very processes of consumption and dissolution. Wealth consumption he divides into "mistaken," "luxurious," "public," and "reproductive" consumption, and he notices the constant antagonism at work between "mankind's desire to gain, and desire to spend."¹

In relation to taxation we are not directly concerned with private economy in expense, though probably our national carelessness thereof makes us rather indifferent to the evils of wasteful public expenditure, of ill-considered or neglected methods of conserving public wealth and value, uneconomic modes of raising and collecting taxes, and, sometimes, unthrifty ways of borrowing public moneys. As a nation we cannot compare in general thriftiness with the French; their speedy discharge of the German War indemnity claim was but the result of a determined course of strict economy, aided, no doubt, by the singularly even diffusion of wealth throughout France, owing to the predominance of agricultural pursuits, and to the more equitable character in some respects of their land and tax systems;² moreover, it is a well-known fact that the self-imposed thrift of the French women, as regards the many social matters coming into their sphere of influence, largely aided that prompt settlement.

Originally I intended to treat the subject of taxation in the way recommended by General Francis A. Walker, discussing it under the usual economic heads described in his work on Political Economy;³ but, on further reflection, it appeared that, besides disputes as to the proper number of such heads, and the order in which they should be considered, there was the

¹ We may add:—"and to save and to consume."—H. L. R. "Science of Wealth,"—"Consumption," pp. 390-91.

² M. Yves Guyot has publicly stated that statistics show that eight out of every ten men in France have a share of immovable property.

³ "Political Economy," p. 289. Lond. 1883.

notable fact that taxation, in its nature and practice, is mainly concerned with two economic processes: (1) Expense, or the Consumption and Use of wealth, and (2) Income, or the Sharing of wealth, *i.e.* Government's share in production to enable it to carry out its particular functions; and that it would conduce to a more comprehensive and logical method of treatment to examine the principles of taxation in this natural sequence than to adopt the programme of any particular writer or writers on Political Economy or Taxation. In the footnote I add further reasons for following this method.¹ General Walker's idea, however (as may have been seen), has, to some extent, been recognised, but a tax system seems to need a broader foundation than that furnished by the usual subject heads of "Political Economy."

¹ During the last forty years or more, several Chancellors of the Exchequer, including Mr Gladstone, have remarked in their budget speeches that public finance required a different treatment to private finance, the necessities of public supply or expense having first to be determined, thus prescribing and governing the ways and means, including taxation, needed for its provision, whereas, in private finance, ways and means govern, or ought to govern, expense or supply, and the several practical statesmen who have presided at the British Exchequer have pursued the first-named course of procedure in making their financial statements and proposals in the House of Commons for changes in the public taxation; no apology is needed, therefore, for applying this method to the consideration of the principles of tax-spending and tax-raising. Professor Bastable, in his recent work on "Public Finance," deals with the subject in much the same way.

Bishop Stubbs, in his "Constitutional History," certainly remarks that taxation may be treated under three heads: (1) the authority legalising the impost; (2) the description of persons and property on which levied; and (3) the determination of the amount for which the individual is liable: but this method is more suited to the examination of a particular tax than to an enquiry into the general principles of taxation.

TAXATION



PART I

PUBLIC FINANCE

TAXATION

PART I

PUBLIC FINANCE

§ 41.—Public Services and Expenditures

Preliminary Remarks

WE now arrive at those laws of taxation "which," as M. Bastiat has observed, "introducing us into the domain of politics—properly so-called—will lead us to compare those services which are private and voluntary with those that are public and compulsory."¹

Unfortunately, Bastiat's work on taxation, though known to have been written, has never been discovered; proceeding from a mind so acute and well stored with the principles of constitutional law and natural equity, it would doubtless have been most valuable in elucidating the cardinal laws or maxims of the science.

The public expenditures, the Army and Navy services especially, offer such large and varied subjects of enquiry, that only those thoroughly versed in these matters could speak with authority on the economies safely to be effected therein; I shall therefore confine my remarks chiefly to drawing attention to certain broad financial and economic principles affecting public expenditures, and the general tax rate necessary.

Some of these have already been referred to in the "British

¹ Frederic Bastiat, "Harmonies of Political Economy," p. 151, Paris. A translation by P. J. Sterling, F.R.S.E. Lond. 1860.

Tax-payers' Wrongs," pp. 124-33, but as important causes of national expense I feel bound to recur to them, for they result from neglecting well-known financial principles.

Mr Gladstone, so far back as the year 1857, remarked, that "the British nation showed a greater disposition to be critical and sore on the subject of taxation, but was perfectly reckless on the subject of expenditure." It would seem that this is still its characteristic, both in reference to imperial and local expense. The major part of the imperial expenditure, viz. that spent on the Army and Navy, must be passed over with the remark, that it is in large degree entailed by the attitude of the great Continental powers, with their huge and ever-increasing armies, navies, and armaments, and their efficiency for instant mobilisation and offensive action, a policy apparently induced by varying influences of ambition, jealousy, revenge, or precaution, and those nations' expenditures on offensive or defensive measures must far exceed now the normal proportion of their respective revenues applicable to such purposes.

The annual increase in our national mercantile, marine, and freightage demands corresponding addition to our fleets and cruisers; the same cannot be said of the increase in the Russian, the German, the Italian, and the French fleets and naval armaments, which have no such ample justification, as inquiry into their national interests on the ocean highways and their respective seaboard will prove.

But better organisation in both our military services, from centre to circumference, might no doubt lead to important economies.

The large expenditure for interest on the national debt needs no comment beyond observing that the rapid annual liquidation of the debt is the most hopeful feature in British finance, and its influence should be felt in the corresponding increase of taxable wealth were local government debt not increased in proportion.

In some other service expenditures, however, timely economies may be more easily effected.

§ 42.—Joint Responsibility for Public Expense and Public Taxation Indispensable

THIS primary principle of constitutional taxation has been insisted on by the financiers, statesmen, and economists of all modern nations enjoying free institutions and liberal government. The late Henry Fawcett, both as a statesman and economic writer, strongly supported the principle,¹ and Mr Gladstone, so long ago as the year 1870, expressed grave doubts on the propriety of applying imperial grants or subsidies to the purposes of local expenditures, and whether the practice might not interfere with sound principles of administration,² but in 1885 he altogether denounced it, saying: "No scheme was more unsound in principle, more objectionable in practice. It relaxes all principles of economy in local government," etc.³ The old system of "imperial grants" for local government purposes was distinctly a violation of this tax principle, and the later plan of "State subventions," of ear-marked, imperial taxes, is but the same thing under another name.

These funds are not raised by the local bodies responsible for their application; a wholesome check on extravagant expenditure is thus lost from absence of taxing responsibility. The element of financial certainty regarding the dependable income from these sources is also lost, and local bodies cannot increase, and are not likely to suggest reduced, subventions corresponding with their actual needs; nor can they seasonably frame or adapt their financial schemes in conformity with this uncertain income. The expense also of tax levy and assessment does not come home as a charge on the local bodies, and so does not inspire economy on their part any more than on that of the central tax departments; and the revenue from the new sur-taxes on spirits and beer, and the half probate duty, is divided among provincial and local bodies on arbitrary and far from equitable principles, country districts being much favoured at the cost of town areas.

Moreover, the incidence of imperial taxes weighs much heavier

¹ "Manual of Political Economy," pp. 612, etc. Lond. 1876.

² Speech in House of Commons, 21st February 1870.

³ Speech at Dalkeith, 21st November 1885.

on the masses than that of local taxation, and substituting the former for the latter must certainly tend to transfer the burden of taxation from the well-to-do classes to the poorer tax-payers, though to prove this might be difficult from the statistics available.¹

As the natural result of this loose system, we find a rapid increase in local government expenditure, coupled with large additions to local liabilities, which I shall presently notice. Referring to the tendency to increased local expenditures, Mr Fawcett, so far back as 1876, noticed the case of Liverpool, whose rates grew in thirty years (1841-70) from £81,733, at 7s. 4d. a head, to £300,941, at 25s. 3d. a head, and remarked that it was wrong to say the increase was only proportionate to the increase in wealth and population, for, in one of the wealthiest and most thriving cities in the kingdom, the charges on each inhabitant had increased 340 %, and the rates imposed on all property assessed had increased 75 %, and extended to all classes.² Similar large increases in other towns were quoted, and now many fresh examples of the kind could readily be given of recent local extravagance in dealing with public moneys and property.

§ 43.—Taxation, and the Public Services it supports, should be applied for the Benefit of *all* in a Tax Area, not of Particular Classes only

THE principle of the co-equal rights and liabilities of tax-payers in a tax area would not be worth much unless it involved the natural consequence that taxes should be applied for the advantage of all in the area of their levy. Doubtless the prin-

¹ This opinion has been confirmed by an article in the *Contemporary Review*, October 1893, written by Dr W. A. Hunter, when M.P. for Aberdeen, a Parliamentary Return he obtained enabling him to show approximately the effect of these subventions-in-aid in Scotland. He proves that an occupier and rate-payer of a house rated at £5 practically loses £1, 8s. 11d. annually by this plan, whilst an owner and occupier of a house rated at £600 saves £46, 7s. 8½d. each year by it. All rate-payers under a £50 rental were losers by this subvention system. In England and Wales the effect of these subventions would be somewhat less severely felt by the poorer rate-payers.

² "Manual of Political Economy," p. 604, etc. Lond. 1876.

ciple cannot be completely enforced in practice, though strict justice requires it. It is much disregarded in imperial expenditure, chiefly owing to the difficulty of arranging a generally acceptable plan of contribution from the various colonies, interested, like the parent country, in providing a common scheme of defence. There are also no definite rules governing the relative contributions from, and expenditures on, the chief territorial divisions of the United Kingdom—England, Scotland, and Ireland. A Select Commons Committee to investigate this last matter was appointed in 1895, and the outcome of its enquiries may in time prove of practical value, but the progress of science, civilisation, and invention, the establishment of railways, telegraphs, improved postal communications, the ubiquitous free Press, and a host of other inventions and contrivances for making differences of time and place of less importance, all directly tend to weld together as one the separate provinces of this Kingdom, and, considering their limited area, the natural line of progress points to consolidation into one homogeneous body rather than to disruption into distinct provinces and nationalities. The Home Rule projects and experiments which the Irish Nationalists invited Great Britain to accept, are quite opposed to the spirit of the age and the growing instinct towards consolidation.

A more negative form of stating this tax principle exhibits in a clearer light the violations of sound finance now becoming popular with the communistic classes of Socialists. I will re-state it thus:—

“The public taxes and services should not be applied to the benefit of particular classes only, but of all in the area of their levy.”

Mr Gladstone expressed his opinion on this point in language that can only bear one meaning. In bringing in his Budget in 1853 the great finance minister said: “We have felt we should best maintain our own honour, that we should best meet the views of Parliament and best promote the interests of the country, by declining to draw any invidious distinctions between class and class, by adopting to ourselves, as a sacred aim, to diffuse and distribute, burden if we must, benefit if we may, with equal and impartial hand, and we have the consolation of believing that by proposals such as these, we

contribute, as far as in us lies, not only to develop the material resources of the country, but to knit the hearts of the various classes of this great nation yet more closely than heretofore to that throne, and to those institutions under which it is their happiness to live.”¹

Take again his reply to a complaint, in 1865, that nothing had been done for the agricultural class:² “We have been steadily endeavouring to extricate ourselves from the vicious habit of looking to the supposed claims, and supposed separate and rival interests of classes, and to legislate simply and exclusively for the interests of the country at large. . . . I believe that legislation for the benefit of a class is a mistake of the first order. In the first place, it is a betrayal of our duty to the nation, whose trustees we are without distinction of class; and in the second place, such legislation confers far less of ultimate advantage, even on the favoured class, than the share which that class itself would derive from wise legislation impartially applied and spread over the whole community.”

These will doubtless generally commend themselves as sound principles of public finance. We can all see the justice of applying the State revenues to the advantage of the entire community, and not merely to that of sections or classes in it; and this principle applies with equal if not greater force to the lesser areas of provincial and local government.

Once adopt the plan of class expenditures and how can its application be limited?

§ 44.—Class Expenditures

BUT, on examining the imperial and local expenditures of this Kingdom, we find this principle infringed in several important instances. The Poor Law Acts, the Elementary and Free Education Acts, the Baths and Wash-houses, the Free Libraries Acts, with a few other legalised expenditures,

¹ “Budget Speech,” 18th April 1853.

² Speech quoted by Mr S. C. Buxton, M.P., in his “Finance and Politics” (1886).

are distinctly violations of this wholesome financial doctrine. In the poor law and educational expenditures both State and local revenues are applied to class purposes.

§45.—Poor Relief Expenses from Taxes and Rates

It is sometimes argued that all derive advantage from this expense, but surely this must largely depend on the persons allowed to share in the relief; the nature of the contributors to the rates and taxes required to meet the expense is also of much importance in administering the Poor Relief laws, so that the taxation may fall equitably on every one deriving advantage from them. Policy, morality, justice, and economy are all involved in this problem, and each needs full consideration; very frequently will it be found that poor relief partakes too much of the character of a rate, or tax, in aid of wages, and that farmers, manufacturers, and other large employers of labour, by such assistance, pay lower wages, and in winter and other times of slack work throw their employees on the rates and taxes for support, thus saving themselves the trouble of finding them employment at reduced wages, or the mere cost of subsistence. There is clearly disregard of justice and economic principles in these arrangements.

Henry Fawcett powerfully exposed the evil effects of this and other poor relief organisation;¹ the late Dr Thorold Rogers² and Mr R. H. J. Palgrave, both of whom thoroughly studied the subject of Poor Relief, notice this effect of the relief (as granted) operating as a rate in aid of wages,³ and David Ricardo's severe strictures on the old poor law system still apply to some of the provisions of the present Poor Relief laws.⁴

Much of the poverty and distress around us results from in-

¹ "Manual of Political Economy" (1876), p. 581, etc.

² "Incidence of Local Taxation"—Article in *Statistical Society's Journal* (1870), pp. 250-52. Rogers considered house occupiers added less than 1% to pauperism, but contributed more than half the sum spent in poor relief.

³ "Local Taxation of Great Britain and Ireland" (1871), p. 21.

⁴ "Principles of Political Economy" (1846), pp. 58-59.

sufficient and irregular occupation, and the inadequate wages paid for some kinds of unskilled labour, and the cost of relieving this distress too largely falls on the great majority of employers, who somehow contrive to give adequate wages and continuous employment, never letting their employees come on the rates for support.¹ It is impossible to avoid the conclusion that employers giving insufficient occupation and wages might, by reducing some of their optional and needless expenses, and by exercising more forethought and contrivance, find constant work throughout the year for their people, and from the benefits derived, and the losses avoided by such extra labour on the land, etc., might soon find it possible to afford better wages, and reap the usual recompense in the more hearty, thrifty work accorded by their work-people, of far more value to employers than occasional reductions in the poor rate.

Charles Babbage, considering this question of poor relief, observed: "There is a certain stage of destitution when it becomes cheaper to feed people than to protect property against them."²

In this aspect our poor relief system represents another method of protecting those who have property from those who have little or none; but even thus viewed, it is surely a very questionable policy for a great nation to adopt, and one open to many grave economic objections, notably the obvious tendency to make the people rely on the State for aid, instead of on their own exertions and perseverance, also the tendency to perpetuate a race of paupers.

As defrayed from State funds, such expenditure is open to many abuses which the most elaborate and costly system of general and local control would fail to effectually check, and even management by local bodies wholly responsible for such relief would be attended by much injustice as long as the present plan of rating occupiers for the Poor, Board-School, and other rates continues to be solely based on the amount of house-rent they pay, compelling many occupiers with families to crowd into smaller or less highly-rated dwellings, or, for

¹ See note 2 on p. 115.

² "Thoughts on the Principles of Taxation," p. 13. Lond. 1848.

similar accommodation, to live farther away from their work in cheaper-rented houses.

From defective industrial organisation and land legislation, from unjust taxation, undue competition, etc., thousands of families become stranded on the shores of our national life streams. Unsuccessful in the struggle for existence, provision has to be made for their relief, and compulsory contributions for the purpose, if compulsory they must be, should at least be strictly equitable in their assessment, or further evils are developed. It is palpably unjust to make the rent of a householder the measure of his ability to subscribe for the poor; his local wealth would be a far truer index, for, when only its bailee, he could be entitled to recover the rates thereon from its real owners.

But apart from financial considerations, the plan of associating people of all degrees of misfortune or misconduct, whatever their antecedents, in one common dwelling, and dividing among them work, often of a most degrading kind, quite unsuitable for most of them, cannot either morally, socially, economically, or politically be right. Their children are dealt with on a somewhat better plan, but a system like that in force in Germany and Holland is needed, of land-cultivation schools and colonies, suitable alike for children and adults, obviating separation of parents and children, and serving as a valuable, healthy training, whether the workers afterwards emigrated or not. A share in the profits realised in these agricultural settlements becomes payable to the co-operators in due course, which is found an important factor in securing their financial success. Combined with a wider application of the Charity Organisation Society system, by opening local branches in all counties and towns to check imposture and misrepresentation, and with an equitable rate assessment system, Poor Relief might soon disappear as a head of expense in the imperial budget, if not in local budgets.

§ 46.—Primary Education Expenses from Taxes and Rates

MUCH the same arguments apply to expenditures on behalf of parents obtaining education for their children at the cost of other classes in the community.

The Education rate, at variance with all sound tax principles, was allowed by the legislature to be levied in 1870, on the representation of the responsible minister that the rate would never exceed 3d. on the rental £1. Unfortunately, the Commons omitted to fix that as the maximum rate.

The latest development of this system—the Act thrusting free education on the poorer classes—dispenses with, and supercedes all moral obligation on the parents' part to provide education for their offspring at their own proper cost; the imperial and local authorities cannot now logically enforce such obligations.

This law practically establishes a pernicious form of Socialism for the State, instead of carrying out its duty of upholding right and repressing wrong, inflicts distinct injustice on un-offending classes conscientiously performing their parental obligations.

By insisting on parents discharging these liabilities, and by enforcing equity in tax assessments for school and other rates, and discrimination as to the persons charged with them, the Government would be exercising its highest function as the dispenser of justice. Bachelor and spinster rate-payers, childless rate-payers, and those whose necessary outlay on education has altogether ceased, rate-payers with children obtaining education at other schools, rate-payers with one child or ever so many children, are all compelled to pay this tax at rates corresponding with their house rental, or estimated house rental, but parents with children at the Board schools escape all charge if not directly rated! What tax could be more manifestly unjust? It has not the imperfect excuse in some States that it is a recompense for compulsory military service, or, in colonies where subjects are much on a general level, that all parents can or do share in the benefits of the free education provided.

This expense assumes even more distinctly than the poor-law relief expenditure the character of a forced contribution to particular classes at the cost of other classes, for some work is exacted in return from most paupers, but none at all from the parents obtaining their children's education at the cost of others; and the injustice thus permitted naturally leads to further unjust claims preferred by politicians anxious to obtain popularity and votes from the classes sharing this legalised plunder, resulting from neglect of this financial principle.

Like the Poor rate the Educational rate acts as a rate in aid of wages, for employers can now pay so much less wages to those competing for work, especially to the unskilled surplus applicants in those walks of labour flooded by the output of these "State education mills," which, naturally, are not producing the most useful kinds of workers, for the State has stepped beyond its economic province, and, by means of its codes, regulations, and staff of inspectors and examiners, is interfering with the natural supply of labourers.¹ It interferes, no doubt, with labour in its early stages only, but these are of great moment in deciding the choice for vigorous muscular out-door labour, or less exacting and more sedentary pursuits. An unlimited number of clerks, shop-girls, teachers, etc., is thus supplied by the State schools, but there seems an evident tendency in the pupils to avoid agricultural and other kinds of muscular industry.

Including Loan expenditures and State grants, more than £20,000,000 is now annually extracted from the pockets of tax and rate-payers, and spent on what is, in fact, the relief of particular classes, and a very large proportion of this sum has been thus added and appropriated since Mr Gladstone condemned the practice. Until this enormous outlay on special

¹ As M. Bastiat has remarked: "It is perfect freedom in education that is most likely to evolve the education best suited to the needs of the people" (*"Œuvres de Bastiat,"* pp. 316-17. Paris). This was also the opinion of Adam Smith (*"W. of N."* (1811), vol. iii. pp. 165, 246-47); and of J. Stuart Mill, (*"Essay on Liberty,"* pp. 62-63).

classes is effectually checked, we shall never arrive at justice and equality in taxation ; tax and rate-payers are beginning to grumble loudly at these heavy class expenditures.¹

§ 47.—Some other “Class Expenditures”

THE Baths and Wash-houses and the Public Libraries expenditures will be found to be almost entirely for the advantage of particular classes only in the areas of rating. So is the expenditure for compensating owners of cattle, sheep, pigs, etc., for losses of stock, under the provision of the Contagious Diseases (Animals) Act. Apply a like principle of public compensation for private losses to other occupations, trades, etc., and its injustice would soon become manifest ; owners should, of course, insure their stock, or otherwise create their own compensation fund ; it is, however, partly self-creative from the higher prices obtained for their healthy stock. The proposed compensation of publicans with public moneys for losses consequent on proper restrictions on the number of drink houses in a district is another phase of this class legislation ; the other publicans benefiting by increased profits and custom in the district should obviously provide the compensation, not the general community.

The Special District Improvement and Drainage rates, as levied on occupiers instead of owners, are of much the same character, the advantages being ultimately absorbed and realised by land-owners. The Blackwall Thames Tunnel Improvement scheme has provided an instructive example of this. The latest examples appear in the provisions of the Agricultural Rating Act and the Voluntary Schools Act of 1897, unduly favouring landlords, and certain State-aided schools termed “voluntary.”

¹ The classes thus compelled to pay rates for education not demanded, and in no way supplied on their behalf, are much more numerous than is at all realised. See remarks, *ante* p. 118.

§ 48.—Post and Telegraph Expenditures

As a matter of public finance, it is quite an open question whether the Post and Telegraph business, now conducted as State monopolies, would not be improved by permitting private competition in certain branches, subject to some degree of public control. For years past the British public, business men particularly, have had to complain of the unsatisfactory way in which some of these services are conducted. The absurd anomalies in the rates of charge, the needless expense of ocean and railway transit and charges, the tardy delivery of short-distance letters, parcels, etc. (except with express charges), and generally, the want of enterprise in adapting the services to the changing circumstances of modern life and needs, are some of the grounds of complaint adduced. But the Post-office administration is no doubt much hampered by the Treasury skimming off so closely the profits from these businesses to augment the deficient tax revenues resulting from other imposts of more or less objectionable character.

As the result of deficient enterprise, private organisations are at work, supplying or supplementing neglected or timidly administered postal and other services. A somewhat shabby treatment of the public as regards small exactions, fines, etc., is also complained of. Mr Henniker Heaton, M.P., has given much attention to these matters, and the public are much indebted to him for many of the valuable reforms lately introduced.

Some efficient representative of business life is wanted in the department to keep it in touch with the ever-expanding needs of modern life and invention. The appointment surely should not depend entirely on party considerations. A practical acquaintance with the principles, policy, and working arrangements of the different postal and telegraphic administrations of the time would appear an essential qualification for the office.

Pure Finance

§ 49.—The functions and limits of Imperial, Provincial, and Local Government and their respective services need clearer definition

THE distinct functions and limits of these taxing and administrative powers seem insufficiently defined by law. The passing of the Act establishing Parish Councils and Assemblies will perhaps gradually tend to put these matters on a better footing, and the Reports of the Select Committee and Royal Commission on the Financial Relations between Great Britain and Ireland may also be of use, though more freedom of action in well-defined limits, and for well-defined services, seems desirable, provided prompt control were secured.

To allow local bodies to expend the parish rates on Indian Famine Relief and other purposes quite foreign to their tax areas seems completely wrong. Can local auditors legally admit such expenditure?

§ 50.—Wholly gratuitous Public Services not really economical. No financial provision made for certain Public Services

IT seems only right that regular services gratuitously given to society should be publicly recognised in some form, and recompensed, if not pecuniarily, at least by some honorary distinction. As Professor Sidgwick has observed: "It is the very worst possible economy not to make adequate provision for the necessary and acknowledged functions of Government."¹

There are many services of the kind now unrewarded, or so badly provided for, that their discharge becomes a tax on those obeying the law, and carrying out their obligations as citizens and subjects. For example, the work of representation in Parliament and public legislation, of local administration, certain magisterial and judicial duties, the equipment of volunteers in

¹ "The Principles of Political Economy" (1887), p. 547, etc.

some respects, provision for obtaining juries', witnesses', and experts' assistance or evidence, and supplying proper accommodation for these and other persons appearing in police and other courts of justice, inquest, etc. Public opinion has long been convinced that unpaid services are not economic, and lead to inefficiency and abuses. The annoyance and expense attending the performance of some of these social duties of citizens deter many from undertaking them, and bribery, defaults of justice, and escapes from rightful punishment naturally result. That statesmen defer and avoid sanctioning such necessary expenses is probably due to the difficulty in raising funds for the purpose by our inequitable tax methods.¹

§ 51.—All Tax Exemptions are really Public Grants

A PRINCIPLE of public finance, casually noticed under the head of Government Property (§ 15), is that of making all Crown and Government property, provincial, county, and more localised, equally liable to the various State and local taxes levied on private persons and associations.

This principle is only the natural corollary of the fiscal axiom that, "The exemption of some, means the extra taxation of others." Such exemptions are simply public grants.

It is clearly right that the nation should know the true cost of the different public services; for instance, in the year 1884, the exemption of the naval and military services from the usual customs duties on spirits and tobacco made it appear that they cost the country £684,024 less than they actually did, for the revenue, in consequence of the exemption, suffered so much loss, and this financial error annually recurs.

Then again, instead of all public lands and buildings being vested in a central land office, charging an annual rent to each, this rental element is ignored in estimates of building and manufacturing cost, and in claims for State services, supplies, etc., though clearly chargeable. As a matter of finance, or

¹ Professor Sidgwick's remarks respecting the matters noticed in the last two paragraphs also seem well worthy of attention. See his "Principles," etc., pp. 546, etc.

accountancy, it is surely wrong that important items of receipt on one hand, and of expense on the other, should be concealed from the public, or not distinctly put in evidence. Mr Gladstone has drawn attention to this financial principle, and questioned the propriety of exemptions.

In his speech on the "Sunday and Ragged Schools Rating Exemption Act, 1869," he said: "Exemption is the imposition of taxes on others. An exemption is a concealed and latent grant which men make, well knowing it, and which hides the real state of things—the imposition of taxes on others. It would be a most important amendment to introduce into the whole law of exemption from taxation, that there should be no such thing except as a public grant."¹

Mr Gladstone has also questioned the general exemption of charities from taxation, but the House of Commons maintained the system despite his cogent arguments. Fairly and squarely regarded, exemption from a tax payable by all others is a public grant in favour of those exempted, and when the State remits a tax in favour of charitable or beneficent societies, that financial fact should appear in the public accounts, for the Government, as the responsible trustee of the national revenue and property, becomes legally accountable for the whole normal product of the taxes granted by the legislative assembly, and should be able to show that they had been duly accounted for, publicity being obviously an essential element of safety in State finance and control. The principle applies equally to exemptions from local taxation; if allowed, they should at least appear as public grants in the local finance accounts.

§ 52.—Public Accounts, and Control and Audit

It has often been remarked that good accountancy is the right hand of good finance, in fact, the extent to which accounts are employed in recording useful particulars of all kinds of wealth and value, of income and expense, and of cost and returns, should fairly represent and measure the efficiency and soundness of a financial system.

¹ House of Commons Debates, 25th June 1869,

Our national account-keeping system, though in many respects sound, rigidly carried out in practice, and to some extent well controlled on behalf of the nation, is in other respects deficient, still remaining chiefly based on the results of an enquiry made in the years 1828-29 by three accountants—Messrs Brooksbank and Beltz, of the Civil Service, and Mr Abbott, a public accountant of some standing in his profession, appointed by the Crown as Commissioners to report on the public accounts to H.M. Treasury. Conflicting views as to the remedies necessary to simplify and improve the accounts led to the two former gentlemen reporting separately from Mr Abbott, and the result of the enquiry was, that the public accounts were framed (and no doubt rightly framed) in accordance with Messrs Brooksbank and Beltz's report, as more suited to the needs of the public service. Certainly many improvements in the system have been introduced since then, frequently at the instance of the Commons' Committees on Public Accounts, and the system is now extended, I believe, to every public department, but though outlay and returns and expense accounts are largely adopted in the manufacturing and store branches of the naval and military departments, they have not yet been incorporated into the general system of double entry, but are merely outside or supplementary accounts; the double entry system, too, does not sufficiently extend to the books and records of the various business branches, but is confined to a few only, so that much of the economy of the system is lost, though the vast scale of the public business offers the best field for its thorough application. Many matters for financial record are still disregarded in the State offices to which the double entry system might be applied with advantage, though possibly the want of a decimal system of notation for quantities and values, with the easy calculations and records it admits of, deters Government accountants from recommending a more elaborate and comprehensive account system.¹ As a natural result, there are no proper assets and liabilities accounts, and the expense of particular services, expeditions, defence, etc., cannot be correctly stated.

One chief cause why responsibility for the heavy national

¹ See § 23 and Note, p. 60.

expenditure cannot be brought home to the respective governments concerned is the absence of proper registers in each department for recording the *liabilities incurred* besides those discharged during the course of each Ministry, for it has happened that an outgoing body of Ministers has left a legacy of indebtedness and expense, and has so anticipated the revenues of future years as to seriously hamper the financial freedom and opportunities of its successors, if not to throw obloquy on their finance. Effectually to prevent such tactics, rules as to the minimum stock of cash, and of ships' stores, etc., of all kinds to be maintained, are requisite; how to establish an adequate check of the kind appears a matter of constitutional importance and of needful legal provision.

I should have liked to have drawn attention to other matters affecting the control exercised by the House of Commons over the public moneys and property, but it would occupy too much space, and take me too far from my immediate purpose; tardy and inadequate accountancy and accounts, however, are the chief causes of tardy and inadequate financial control, and audit should follow certain transactions much more closely than it now does. In all Government departments, too, it is the safest plan to establish a clear distinction between the duties of the Executive and Executive-Control officers and those of the independent Audit officers and assistants.

Local government accountancy is even more incomplete than State accountancy, as far as one can form an opinion, though the city of London accounts, and certain Scotch corporations and larger English city accounts, appear exceptions in some respects.

As regards local-government business, great variety will be found in the quality of the finance, chiefly evidenced in the amount of the rate imposed, the loans outstanding, the rate of interest payable thereon, and other criteria of sound or faulty finance, much depending on the character and promptness of the control exercised by the Local Government Board in England, the corresponding authorities in Scotland and Ireland, and the local auditors.

The points most needing attention in local finance and control are: better arrangements for preparing and discussing

the local budgets with due publicity, and for giving timely notice thereof to all concerned; more prompt and regular transmission of accounts to headquarters; prompter and more continuous control and audit of accounts and returns, and their collation in one central office; settlement of the proper heads of receipt and expense common alike to all local accountants; corresponding periods of time embraced in all the accounts from England, Scotland, and Ireland; and early publication and despatch of the accounts to those concerned.

The valuation of assets, and the establishment of capital and revenue accounts and balance-sheets, are also matters generally neglected, and without which no complete control can be established over local public property and its management. Such reforms would increase public interest in local finance, and tend to improve its character.

§ 53.—The Limits of Local Government Administration

LOCAL governments seem now more easily induced to undertake the administration of water supply, gas manufacture, tramway traffic, new cemeteries, baths and wash-houses, public libraries, and other matters not directly subjects for their *administration*, though certainly for their *control* on behalf of the community. Considering that these local bodies are already far from being underworked, and are unremunerated for their services, it would appear that for some years a system of stricter local control in these matters would prove more economical than local administration. Local loans for such undertakings are rapidly accumulating, and it is far from unlikely that local government administration by unpaid but over-worked public bodies will prove in time as costly and extravagant as the municipal finance of the United States.¹ In the twelve years between 1867-68

¹ M. P. Leroy-Beaulieu, in referring to the proper functions of Government, takes the same view as Amasa Walker, that they should be confined to such works and services of actual usefulness as could be carried on better and more economically and safely by that than by any other agency. "Traité de la Science des finances," vol. i. pp. 112-14. Paris, 1879. See also *ante*, pp. 18, &c.

and 1879-80 the *tax-payer's* burden increased by only 9.6 %, whilst that of the *rate-payer* advanced 56.4 %, and the rate per centage is still increasing annually !

§ 54.—Irregular and inadequate Public Cash Balances

THE late Lord Sherbrooke, when (as Mr Lowe) presiding over the Exchequer in the year 1870, introduced the present plan of postponing till the last quarter of the financial year (January to March) the collection of the House Duty, certain portions of the Income Tax, and other Assessed Taxes in the nature of Direct Taxes, these taxes having theretofore been received at irregular times throughout the year. No doubt some convenience to revenue officials and tax-payers attended this change, but more than corresponding financial irregularities resulted, for, besides tending to defaults in tax payments during the long-delayed collection, the revenue, till quite recently, dwindled month by month from April to November, and usually a plethora of cash receipts occurred between January and March. This could not properly be remedied by deferring payments till the last three months of the financial year; besides, a Statute law prescribes that an Exchequer balance must be held equal to the ensuing quarter's cash liabilities for the Civil List payments.¹ The result was, that in course of time cash had to be borrowed by means of Deficiency Bills, and the quarterly Treasury accounts often have presented an apparently bankrupt position of cash affairs, not quite in keeping with a great nation's financial reputation and absolutely solvent condition. The taxing powers might surely secure a more even revenue receipt throughout the year, obviating the necessity for such periodical borrowings; the balances, however, have been increased lately under Sir M. Hicks Beach's *régime*.

Other considerations affect this question. The many new functions thrown on or assumed by Government year after

¹ Including interest on the national debt, regal establishments, judges, and other high state officers' pay, pensions, etc.

year, requiring it to act as trustee, banker, agent, etc., as regards its employees of all ranks, and their families, legal representatives, etc., suggest ample cash balances at all times; further, its numerous and important financial dealings with the public generally, with local governments, and with other public bodies make it an obvious duty to hold sufficient balances, not only in the departmental offices, but with the Paymaster-General and the Bank of England.

Is it advisable, then, to invest so much of the public cash balance in the public funds? As Chancellor of the Exchequer, some few years ago, Mr Goschen took the British bankers to task for keeping their cash balances somewhat low in proportion to their liabilities, and a decided and rapid increase therein resulted, but is there not also occasion for increasing the public balances at the Bank of England, etc.? To make provision of the kind might perhaps not be a popular measure, but to strengthen the national cash reserve would certainly add stability to the general rates of discount and interest.

Another phase of this subject deserves notice. Without suggesting any approach to the immense cash balances maintained by Germany, France, Russia, etc., in case of war emergencies, it will perhaps be generally admitted that better provision of the kind is necessary in this kingdom, for, by providing the sinews of war in times of peace, the enormous loss incurred in negotiating loans at panic rates of interest, when an European war was imminent or declared, might be avoided, attended as it certainly would be by great depression in the public funds and loss in selling out stock. No doubt for such purposes a surplus of revenue over expenditure might be diverted from its statutory appropriation (reducing the national debt), but it is not a sufficiently reliable fund, for soon after such application the emergency might occur. Of course there is the argument against reserve funds, that the reserve exists in the hands of the nation, and fructifies more there than in the public coffers, which is so far true; but it is also true, that surplus funds are often wasted in public investments, in shaky foreign loans, and other risky enterprises; the question of augmenting the public balances is, however, really one of degree, and an increase of some seven or eight million pounds would certainly

produce a salutary effect on public and private finance in more ways than I have noticed, but chiefly by steadying the rates of interest, and preventing panic prices for cash. The increase once effected, the amount of cash requisite for the needs of the general community would soon re-adjust itself.

§ 55.—Loans for seldom-recurring Expenses

IN Mr Gladstone's earliest budgets, which were probably partly inspired by that experienced Secretary to the Treasury—the Right Hon. James Wilson¹—he dwelt on the marked distinction there was between private and public finance, the former adjusting its expenditure to its income, the latter adapting its revenue to its necessary expenses; and a consideration of this distinctive feature in public finance, and of the constant recurrence of unusual or exceptional heads of expenditure (sometimes much like capital outlay, whose full advantages are reaped in subsequent years) proves the soundness of the principle of making provision every year for extraordinary expenditures, and that, for constitutional as well as financial and equitable reasons, it is better that such expenses should not be thrown on future generations. No doubt past generations have imposed liabilities on present tax-payers, but, as history shows, a large proportion of them was incurred in the struggle for national independence, for taxation could not then have been pressed further; but now it seems questionable finance to throw on the tax-payers of many years hence the expense of strengthening our navy, building new barracks, fortifying coaling stations, and similar recurring, though more seldom recurring, expenditures, instead of boldly meeting their annual cost from current taxation. Still more doubtful finance is it to raise loans for such purposes by hypothecating exceptional revenues belonging to future years, such as expected repayments, as unfair to succeeding financiers.

In local finance this principle is of even more importance, yet we see local debt annually growing despite the large subventions from imperial taxes. Almost every new or seldom

¹ For many years Editor of *The Economist*, and afterwards Finance Minister in the Council of India.

recurring expense of any importance is now made an occasion for raising a local loan, and the control over such loan contracts for new objects of expense now seems quite inadequate. As Professor Bastable has noticed: in thirteen years, ended in 1888, the increase of local debt in England and Wales was at the rate of nearly £8,000,000 a year, the debt of London was over £40,000,000 in 1892, and the Irish and Scotch local debts also were together over £40,000,000.¹ The local public debt, in 1837 about £25,000,000, is now (1897) approaching £280,000,000. He remarks (p. 591): "Just as Direct taxation is often advocated on the ground that it brings the real cost of the State more clearly before the contributors, so has the policy of paying all expenses out of taxation been regarded as a salutary and wholesome check on the natural disposition to indulge in extravagant outlay. To make things smooth for the present at the cost of the future is not the duty of the wise and far-seeing statesman."²

Loans mean increased and prolonged taxation; they are mortgages on the earnings and incomes of the present and future generations of tax-payers, and have proved most unthrifty expedients for tax and rate-payers.

By some error or omission in the official rules concerning loans, or owing to faulty accountancy merely, the expenditure from loans has often been kept distinct from the ordinary expenditure; this has happened both in central and local government finance, and when overlooked, as it is liable to be, obscures and confuses the true financial position; its tendency to mislead was noticeable in recent discussions in the House of Commons and in the daily Press, touching the relative extravagance and responsibility for it of the two great political parties in the State during their respective administrations, loan expenditures, as well as outstanding liabilities, being sometimes overlooked in the opposing statements of costs.

¹ "Public Finance," p 627. Lond. 1892.

² *Idem.* p. 591.

§ 56.—Relations between sound Finance and sound Taxation

It will be readily admitted that prudent and economic public finance largely affects the willingness and the ability of subjects to bear public taxation, and it may be as well to quote some opinions of economic writers who have considered the general subject of taxation from widely different points of view, for it will be found that these writers' views converge more closely when the subject of public expenditure and the need of economy and prudence therein are approached.

Jean Jacques Rousseau observed that: "Le seul secret de faire contributions sans murmure est de montrer le bon usage qu'on fait des contributions."

J. Baptiste Say has written, in the form of a smart *bon-mot* rather than the mature opinion of an experienced economist: "The very best of all plans of finance is to spend little; and the best of all taxes is that which is the least in amount." His desire for emphatic statement seems to have somewhat affected his usually sober judgment, and he thus ran riot on economy. The axiom as thus expressed is most questionable, and displays that thorough distrust of Government agency so often observed in French writers on finance.

Pollard Urquhart, in regard to finance, remarked: "Taxes, if properly spent are nothing more than a part of the necessary outgoings for the management and improvement of property."¹

Monsieur H. Block wrote: "It is well understood that taxation is only justifiable in reference to the purposes to which it is applied; the more it is freed from all resemblance to tribute or exaction the more is it legitimate; and the more each can easily assure himself that the services it supports are indispensable to the country, and could not be obtained on better terms, the more readily will it be paid."²

¹ "Dialogues on Taxation" (1862), p. 132.

² "Dictionnaire Général de la Politique," Paris, 1874. "Impôts," by M. A. Clement, with notes by M. Block, chief editor.

A quotation from the late Right Hon. James Wilson will fitly conclude this part of my subject :—

“Finance is not mere arithmetic ; finance is a great policy. It lies at the bottom, at the root, of the government of every country. Without sound finance, no sound government is possible ; without sound government, no sound finance is possible. In the commercial and fiscal policy of a nation lies the foundation of the happiness, the prosperity, and the welfare, not only of the working classes, but of the capitalists also.”¹

§ 56a.—Review of Part I.

THE leading principles in general Sociology, Statecraft, and Political Economy, usually affecting and influencing the opinions of statesmen and economists on the subject of taxation have now been noticed ; opinions as to the extent to which rights, liberty, and responsibilities may be properly and safely conceded or attached to subjects and citizens ; the proper functions of Government and their wise limitation ; important distinctions between national wealth bestowed by the Creator for the benefit of all, and wealth resulting from man's labour ; between measurable wealth and value in material goods, and unmeasurable wealth and value enshrined in Nature's elements and in human beings ; between wealth and capital according to their employments and uses ; between luxuries and necessities of primary or more remote importance ; between realised and unrealised wealth, whatever these terms imply ; questions as to methods of recording and measuring quantities and values of wealth objects ; as to income, etc., as criteria of taxability ; as to subjecting claims on wealth to taxation as if they were actual wealth ; opinions regarding labour and its interests ; the extent to which State intervention is prudent in relations and exchanges between capital and labour and employers and employed ; questions respecting free or more or less controlled exchanges between nations, classes, and individuals ; financial questions as to applying public moneys to the advantage of

¹ Quoted by Sir M. Peto, in 1863, in his work on “Taxation,” etc., and more briefly by Professor Bastable in the title page of his “Public Finance” (1895).

particular classes only—and other matters regarding the maintenance and treatment of public funds and balances with equity, economy, and forethought.

It may now be better realised how easily conflicting views on some of these matters might cause divergent views respecting the fiscal laws and regulations desirable in particular communities.

The remaining sections in this volume deal with Fiscal Science, or the principles on which the funds required for public services should be raised with due regard to justice, economy, and the convenience of all concerned, matters perhaps more powerfully affecting the rights of tax-payers and rate-payers than the principles governing the application of tax funds.

TAXATION



PART II

FISCAL SCIENCE

TAXATION

PART II

FISCAL SCIENCE

§ 57.—Government's Share of Wealth and Value

Absence of Principle in National Taxation

THE late Lord Addington, at the Social Science Congress in London, in 1862, observed "that Taxation, as a science, had been utterly neglected by statesmen: that the system, or rather the *process*, of taxation was conducted with an entire absence of principle," and he remarked that "even by members of the legislature, opinions such as the following were held and enunciated: That a tax confessedly unequal, unjust, and demoralising (referring to the income tax), was to be preserved in its deformity because its defects were inseparable from the very nature of taxation; that a tax weighing unduly upon a particular class was to be kept unaltered because another tax (also to be religiously preserved) pressed unrighteously upon another and a different class; that a tax on property transferred after the death of its owners could appropriately be balanced against a tax on annual *income*, and this whilst not only the action of the income tax which seizes *property* was defended, but the distinction between property and income was declared at the same time to be unreal and impracticable!"

Again, as he noticed: "The special advantages of indirect taxation on the one hand, and of direct taxation on the other, were ignored in the struggle (to make the one or the other

the chief purveyor of public revenue) between the actual possessors of property and those who are industriously acquiring property"; and he proceeded: "Political strife has led to the adoption of false theories by one party, and to the opposition of sound policy by another, until public men have become so entangled in their past professions as to be deterred by very shame from acknowledging and adopting the honest and simple policy which the interests of the country demand." ¹

This criticism seems as true and applicable now as when uttered in 1862, and has been aptly confirmed by a legal authority able to form the soundest opinion on the subject. Mr Melvill, for many years Solicitor to the Inland Revenue Department, giving evidence (7th April 1876) before a Committee of the House of Commons on the Railway Passenger Duty, was compelled frankly to avow: "*There is very little principle in taxation,*" meaning British taxation.

§ 58.—The Origin and Growth of Taxation

I MUST first briefly glance at this subject.

Whatever the circumstances under which a governing power has acquired its rights over a tax area, whatever the limitation or control over its power, and whether such power rests in the hands of one person or more, the duty of protecting the general interests and property of those within the area demands that the governing power should possess adequate means for carrying out its duties and enforcing its orders.

In the history of all civilised nations of any consequence a landed domain has originally constituted the chief element in the Sovereign's or State's power and means of government; but in course of time increasing population and wealth, wider foreign relations, and other causes, entail expense beyond the ability of that domain to defray, and the governing power, besides requiring its subject's personal services, has to obtain material aid also to supplement its deficient revenue. Such

¹ *Trans. Social Science. Economic Section. Lond. 1862.*

assistance is sometimes at first termed benevolences, contributions, aids, gifts, or other modes of gilding the pill of taxation, or disguising its unpleasant taste, but compulsory it inevitably soon becomes. According to the more or less absolute power of the government, checks will be unprovided, or provided, to prevent undue exercise of this important power over the services and property of subjects. Such aids are usually at first given in kind, but, as civilisation advances, money is substituted, and is termed "taxes," though, of course, quite as truly taxes when taken in other forms, and the system or method by which they are raised (as well as the aggregate of a tax or taxes) is termed "taxation."

§ 59.—The Words "Tax" and "Taxation"

THE Latin verb *taxio*, from which our words, "tax" and "taxation," are derived, is always associated with the idea of estimating, measuring, assessing, testing or trying, of appraising or valuing, all obviously needful processes in determining either the costs of public services and objects, their value, or the ways and means and money value needful to meet such cost, or for ascertaining the value of the property to be safe-guarded by Government.

The words, "cess" and "rate," in local taxation, have like connection with processes of estimating, measuring, etc.

§ 60.—Definitions of Taxation

MIRABEAU has defined taxation as: A common debt of citizens, a kind of indemnification, and the price of the advantages which their association procures them; and further, a tax is a portion of our property which has ever been, and ever will remain, appropriated and destined to secure to us the peaceable enjoyment of the rest. . . . In a word, taxation is a debt by the law of Nature, *i.e.* by the law of God and man, provided we give the word "tax" its true meaning, and understand by it security and relief, and by no means general oppression. . . . Taxation is nothing more than an advance of money to obtain

the protection of social order, a condition imposed on each by all.¹

Montesquieu says: "Les revenus de l'état sont une portion que chaque citoyen donne de son bien pour avoir la sureté de l'autre portion, ou pour en jouir agréablement";² and Judge Blackstone, evidently endorsing Montesquieu's definition, says: "Taxation is a portion which each subject contributes of his property in order to secure the remainder . . . the subject . . . when properly taxed, contributes only some part of his property in order to enjoy the rest."³

Amasa Walker says: "Government implies functionaries and expenditures. How shall these be maintained? Evidently by the contributions of all, for all are interested in its existence. It may therefore rightfully claim a share of all that labour and capital have created. Such share is "revenue," and the system by which it is collected is "taxation."⁴ It is clear that revenues unexpended year after year, however sunk or invested in more or less permanent forms, must be included as wealth and value created by labour and capital.

A. L. Chapin, president of Belvoir College, Wisconsin, defined taxation to be: "The means employed to gather from a people the contributions needed for the purposes of the Government."⁵

J. R. McCulloch said: "A tax is a portion of the property of individuals which is taken from them by Government, and disposed of by it."⁶ It is worth noticing how this writer, whose views were of the most strictly economic type, and who attached somewhat limited importance to equity in taxation, adapted his definition accordingly.

De Parieu defines taxation as: "The charge levied by the State on the property and labour of the citizens in order to provide for the public expenses." And again: "Taxation is a sacrifice of a proportion of the wealth of the individual, to

¹ "The Economic Table" (1766), W. Owen's English Translation (1776), in Brit. Mus. Lib., p. 175, etc.

² "De l'Esprit des Lois," book xiii. chap. i. Genève, 1748.

³ "Commentaries on the Laws of England" (1765), Kerr's Edition, vol. i. pp. 277-302.

⁴ "Science of Wealth," p. 306. Boston, U.S., 1866.

⁵ "Johnson's Universal Cyclopædia." New York, 1878. Article—"Taxation."

⁶ "Encyclopædia Britannica" (1860), p. 38. Article—"Taxation."

the needs of the community ; necessity is its principle ; exigency its character ; compulsion supplies for him its authority.”¹ His leading idea of taxation being a “sacrifice” has due prominence in this last definition.

Luigi Cossa wrote: “A tax is that part of the wealth of private individuals which the State, provincial, or municipal power appropriates in order to provide for the public expenses incurred for the advantage of the general body of taxpayers.”²

Dudley Baxter wrote: “Taxes on property are the quota which the property pays for the State’s protection.”³

Sir John Sinclair, a noted fiscal authority, at the close of the last century, defines taxes as: “Contributions legally exacted from individuals to defray the public expenses. As they are intended to supply the place of voluntary contributions . . . taxation should resemble, as far as possible, voluntary aids. The State should only exact what the subject ought spontaneously to have given. Taxation is founded in some respects on the unfortunate suspicions which mankind entertain of each other.”⁴

Mr. E. C. Macqueen, at the Social Science Congress, in 1872, defined taxation to be: “The price we pay for the benefits of civil Government and national defence, for just and equal laws, for the protection of our persons, liberty, and property in peace and safety. It is a debt due from every subject to the State.”⁵

M. Leroy-Beaulieu terms taxation: “The contribution required from each citizen for his share in the expenses of Government.” And again more fully: “The price of the services that the State renders or has rendered ; it represents also the share that each citizen, in accordance with the principle

¹ “*Traité des Impôts*,” (1866) pp. 1-5, also p. 483.

² “*Scienza delle Finanze*” (1880), p. 50. American Translation.

³ “*Local Government and Taxation*,” p. 92. Lond. 1874. Adam Smith, Say, Ricardo, Courcelle-Seneuil, Proudhon, Clamageran, Garnier, and many other writers take this, or a very similar view of taxation.

⁴ Sir J. Sinclair, “*History of the Public Revenue*,” chap. ii. pp. 54-55, vol. iii. Appendix 1. Lond. 1785.

⁵ *Trans. Social Science* (1872), p. 383.

of national unity, should bear of the general costs of all kinds falling upon the State."¹

W. P. Urquhart's definition was: "Taxes are in reality nothing more than a charge for the general regulation and defence of all the estates of the Kingdom, and the interest of the sum for which they ^{were} mortgaged"² (*i.e.* the interest on the public debt, etc.).

I conclude with the most recent definition by Professor Bastable: "A tax is a compulsory contribution of the wealth of a person, or body of persons, for the service of the public powers."³

Like M'Culloch, he confines the definition to a tax, not extending it to general taxation, and in the reasons given in support of it, he seems anxious to eliminate all reference to cost and benefit as irrelevant, though many will think that from the individual tax-payer's point of view some such reference is necessary in any definition of just taxation, which we presume most writers on the subject have as their objective.

It would seem, then, that we may safely call Taxation a compulsory contribution of the wealth of subjects and citizens to meet the past, the present, or the future cost of State, provincial, or more localised Government services; and from the individual tax-payer's point of view, the amount of such taxation finally borne by him should represent, as closely as practicable, his just and proper share of such general cost; and further, it may be noticed, that the more limited the area of tax levy and its beneficial application, the more manifest should it become that each citizen equitably shares the advantages as well as the liabilities of the taxation.

§ 61.—The Similes and Analogies of Taxation

It may be useful to notice here certain similes used in reference to taxation, as they help to throw light on its nature by denoting differences as well as analogies in the comparison.

¹ "Traité de la Science des Finances," vol. i. p. 110. Paris 1879.

² "Essays on Subjects of Political Economy," p. 93.

³ C. F. Bastable, "Public Finance" (1892), pp. 243-45.

The late Lord Sherbrooke, when Chancellor of the Exchequer in 1870, in his Budget speech, compared the tax-payer to "the little animals at the bottom of the ocean," which successfully withstood a pressure of three tons to the square inch, etc., and he continued: "They were able to live under these conditions because the pressure was equalised. So with the tax-payer. The Chancellor of the Exchequer is a man whose duties make him more or less a taxing machine. He is intrusted with a certain amount of misery, which it is his duty to distribute as fairly as he can. . . . He ought not to distribute his pecuniary misery by picking out a certain number of persons and driving them raving mad with tic-douloureux, or gout, and exempt all the rest of the community. That is not just. He should contrive to make everybody a little uneasy, so that life, if not enjoyable, should be at any rate tolerable."¹

Allowing for the play of a certain amount of grim pleasantry in this double-barrelled metaphor, it cannot be regarded as a flattering or hopeful description either of the state of the tax-payer, or of the office of the tax-master, when it represents the tax-payers between a Chancellor of the Exchequer and the bottom of the deep sea, and subject to what the Chancellor probably considered a "scientific pressure!"

Dr William Farr thought taxation should be like the pressure of the atmosphere, equal on all sides.²

Hamer Stansfeld says: "Taxation is a premium paid for the insurance of life and property."³ M. Thiers, J. R. McCulloch, and many other writers have also compared the State in its taxing capacity to a mutual insurance company, where the payments of the members are proportioned to the sums they have insured, or to their interests in the concern. And M'Culloch observed: "So it should be with the subjects of Government. It is established for the common benefit of all those who labour, whether with the hand or the head, of those to whom property has descended, and of those by whom it has been acquired, and is indispensable to their well-being, and to that of every one

¹ Quoted from S. C. Buxton's "Finance and Politics" (1886).

² "On the Equitable Taxation of Property."—*Statistical Society's Journal*, p. 19 (Jan. 1853).

³ "Outlines of Direct Taxation," p. 23. Lond. 1859.

else, and, being so, it results that all individuals should contribute to its support according to their state in society, or to their means."¹

That some resemblance to an insurance society subsists is undeniable, but the simile is not wide enough to comprehend local taxation, with much of its particular kinds of outlay and service, nor the clear appropriated profit arising from Government undertakings, such as the post-office and telegraph services, which is really taxation, nor the net profits from local Government undertakings, such as water-supply, gas-works, etc., also a form of taxation; moreover, the State, exceptionally only, and to a very limited extent, guarantees the indemnification of a subject's loss of property.

Nassau Senior compared expenditure on the national defence, and the taxation to meet its cost, to the expense of locks and bolts in housekeeping, watchmen's wages, etc.,² and as far as the comparison goes it seems true enough.

M. N. F. Canard, a French writer, on taxation (1802), likens it to the process of bleeding, but his countryman, M. J. B. Say, denies that there is any such analogy in the objects compared, and considers taxation more like the lopping off of a limb of a tree, or the mast of a ship, so little apparently could these writers admit the possibility of wholesome exercise of the financial and fiscal power by Government, or concede that the flow of the circulating medium to the higher centres of political force and action was as needful as that supplying nutriment to the rest of the social body. This distrust of State powers evinced by French economic writers has perhaps been justified by experience.

Dudley Baxter compared taxation to a soldier's knapsack, the various taxes being like the straps which enable the soldier to bear his burden without too much strain anywhere.³ The analogy is imperfect, tax-payers having to bear many burdens besides taxation, and a multiplicity of straps would be at least embarrassing. Imagine the payment of rent by a variety of distinct claims or demands!

¹ "Encyclopædia Britannica" (1860 Edition), p. 75. Article—"Taxation."

² "Encyclopædia Metropolitana" (1845) p. 158. Article—"Taxation."

³ *Statistical Society Journal*, pp. 15-16. Lond. 1869. Article—"The Taxation of the United Kingdom,"

Dr Farr's likening of taxation to a rental paid to defray the cost of government,¹ is the simile usually employed by modern economists, and would be perfect enough were there one single tax only.

§ 62.—The Right or Justification of Taxation as a paramount claim on subjects and citizens

THIS element in taxation has been well described by Aaron L. Chapin, D.D., of Beloit College, Wisconsin, U.S. After a succinct definition of taxation, lately quoted (p. 140), he proceeds :—

"The prosperous industry through which men acquire wealth, and the well-ordered condition of society by which men are made secure in the possession and happy in the enjoyment of wealth, depend on good government efficiently administered. Every individual of the State has therefore an interest with regard to his own well-being in the maintenance of government, and it is wise and right that he contribute a portion of his wealth to its support. Since the government, as an agency for promoting the general good, represents a common public interest superior to any private interest, its claim very properly takes precedence of all others, and in a sense it has a first lien on the entire wealth of the nation. The rightfulness of taxation in the abstract stands thus on incontestable principles of sound economy and of essential justice."²

More than two hundred years ago justification of taxation, as regards its public utility, was similarly argued by the German writers Besold and Klock.³

§ 63.—The Object or Purpose of Normal Taxation

THE natural object of taxation may be briefly described as—the provision of funds to meet the cost of such services as can

¹ *Statistical Society's Journal*, p. 14. Lond. 1853. Article—"On the Equitable Taxation of Property."

² Johnson, "Universal Cyclopædia," p. 739. Article—"Taxation." New York, 1878.

³ "Tractatus de Contributionibus." Frankfurt, 1676.

more efficiently, economically, equitably, and for the general advantage, be performed by the State or more localised governing body than by private enterprise, individual or collective, and whose cost cannot be wholly met from other public resources.

Leroy-Beaulieu, referring to the science of "Public Finance," observes, that its object is—to find means for supplying funds to the State whilst husbanding as much as possible the economic resources of the country.¹ The term "Public Finance" is here used in its fiscal or tax-raising sense.

§ 64.—The Minimum and Maximum of Taxation

THE minimum of taxation is reached when the State undertakes as few functions as possible as an administrative power; when it merely controls, on behalf of the public, such institutions as Posts, Telegraphs, Railways, Banks, Insurance offices, etc.; when it avoids loans and other running debts and deferred liabilities with their consequences; avoids useless wars and other expensive political expedients; maintains vigilant control over all its executive, the public property and domains, including mines, foreshores, rivers, and coasts; and maintains perfect efficiency and economy in all its administrative departments, including such an economic method of assessing and levying public taxation "as will take out and keep out of the pockets of the people as little as possible over and above what it brings into the public treasury."²

The maximum of taxation is obviously reached by neglecting these methods, and may be fully attained by Government's engaging in all kinds of services and undertakings better left to private individual or collective enterprise, making wholesale requisitions on the wealth and labour of a nation, forced loans, confiscations, conscriptions, and other desperate expedients, such as leasing or surrendering to foreign powers portions of its territories, etc.

¹ "Traité de la Science des Finances" (1879), vol. i. p. 229.

² Adam Smith's Fourth Maxim.

§ 65.—Definitions of some other Terms used in Fiscal Science

THERE are other terms used in the science which should convey as precise a meaning as possible, allowing no room for doubt or dispute. They are as follows:—

§ 66.—Tax Area

AN area of government over which there is a distinct taxing power and controlling authority.

§ 67.—Tax Subject

THE person, or persons, on whom a tax is assessed or primarily falls, or the person or collective body that originally pays a tax.

§ 68.—Tax Object

THE person (in poll taxes), or personal occupation (in certain other taxes), and the material, visible, measurable, exchangeable thing or commodity upon which a tax bears, or may be made to bear, such as wine, tea, gold, etc., or a more or less definite operation, state, or condition affording a basis for taxation, such as income, capital, expense, faculty, locomotion, transfer, etc.¹

§ 69.—Tax-Bearer

THE person or collective body on whom the incidence of a tax ultimately rests, or the person, or persons, who finally bear or share the burden of it. In poll taxes the tax-bearer is usually the tax object.

¹ The great diversity of tax objects, taxes, and tax bases, included under different fiscal systems, makes any definition somewhat lengthy and involved. See "Tax-Bearer" also.

§ 70.—Primary and Final Tax Incidence

TERMS used to denote the first effect of a tax imposed, and its final effect after the shifting or diffusion of its first incidence has been accomplished.

It may be held as an axiom that under particular conditions of demand and supply, and of social relations between the producers, sellers, and users of a taxed commodity or service, every tax may be shifted by tax subjects on to some other person or persons.¹

§ 71.—Tax Bases

PERSONS and wealth objects, or particular classes, kinds, attributes, or symbols thereof, offering directly or under certain conditions of use, occupation, action, or association, sufficient capacity for measurement and constancy of nature to serve as standards for assessing taxation on similar persons, wealth objects, etc., before levying it on the tax subjects or tax areas legally chargeable therewith.²

§ 72.—Tax Sources

IN relation to tax objects and bases, tax sources may be defined as antecedent or more remote states or conditions liable to taxation, as houses, for example, stand in relation to the rentals derived from them, or stock or capital, in reference to the interest received for its use.

Lorenz von Stein has shown in his work on finance,³ that the outlay of taxes creates tax sources in the increased values yielded from Government's co-operation in national production. This, of course, depends on the State services and expenditures being just, judicious, and economical, or the contrary.

¹ See also § 77.

² Definition somewhat lengthy. See Note to § 68.

³ "Lehrbuch der Finanzwissenschaft," part ii. § 1, pp. 412-14, 556-61, Leipzig, 1885.

§ 73.—Tax Assessment

THE official methods, rules, or processes, by which the proper taxability of a tax object is determined with relation to similar, or somewhat similar tax objects, and requiring for such purpose some tax basis, or standard of comparison.

§ 74.—Explanation of certain terms needful

OTHER terms used in the science are either too obvious in their meaning to need definition, so seldom used that they may be defined as they occur, or, like some of the German terms, too much in the nature of abstract refinements of the science to be used in a work of this kind. Three other matters, however, need explanation more than definition, and can be best noticed here.

§ 75.—Private Taxation

THIS term, already sometimes used, and partly explained in its text connection, needs clearer exposition.

Certain German economists¹ have observed "that all expense is taxation." This seeming paradox may be partly explained thus: In paying for a commodity or service, that part of its price which exceeds its entire economic cost, including the usual profit of the seller, constitutes taxation, public or private, according as the supply of the commodity or service is effected by public or private agency; or, in other words, the nett profit left to sellers after paying normal or usual profit, wages, etc., to them, and all concerned in the production, sale, or hire, of commodities or services must be viewed as taxation. The surplus postal revenues offer an example of such *public* taxation. *Private* taxation of the kind is most common in countries with land laws resembling our own, favouring private monopolies in land, mines, and other natural forces not created by man's labour; it results also from monopolies in certain occupations,

¹ A. Schäffle and A. Wagner, for example.

industries, and objects of sale or hire, especially those protected by patents, and commodities in general use and demand, subject to occasional contractions in supply.

Private persons and associations may thus obtain and exercise uncontrolled power of taxing others in the prices demanded for goods or services; and the private interests of a few privileged persons may thus be pushed in so irresponsible a spirit as to lead to severe private taxation of the masses.

The most striking examples of the kind are the *enormous* prices charged for land or its use in and about towns and cities, and in choice situations, where higher prices would naturally be expected.

All this I term "Private Taxation."

§ 76.—Particular Taxation

GOVERNMENT, central or local, may, with the best intentions for the public safety and advantage, and for the rights of the masses, impose restrictions or exceptional duties and expenses on certain traders, manufacturers, ship-owners, importers, etc., equivalent to particular taxation of these few, besides their share of further public (government) expense incurred in securing due observance of such regulations, etc.

These imposed expenses and restrictions I term "Particular Taxation." An example of it appears in the action of the "Merchandise Marks Act," respecting importations of certain foreign goods into the United Kingdom. No special revenues are obtained from these imports to defray the cost of administering the Act, and the danger is that these restrictive measures and investigations, entailing on shippers and importers much loss of time and expense, may ultimately cause serious loss to the revenue by driving away commerce and trade, entail much useless private and public expense, and perhaps provoke retaliatory measures with British exports.

§ 77.—Shiftability and Diffusion of Tax Incidence

I HAVE already briefly defined tax incidence, and in previous sections have found it requisite to notice the subject, especially as regards the "division or sharing of wealth," which it largely affects. Having further to notice its peculiar influence on all taxes and tax systems, however skilfully devised, it will be best to examine at once this all-pervading economic element, sometimes acting as a palliative or corrective of taxation, at other times as an aggravation of its effects.

Adam Smith very truly remarked: "All taxes should fall as equally as possible upon the fund which must finally pay them."¹ But how to effect this result is the crucial problem.

German writers employ the expressive term *ueberwälzung* to describe the effort of tax-payers to roll off the burden of a tax on to others' shoulders, to shift it off according to their ability and opportunity to do so, either on the party purchasing, using, consuming, or otherwise employing the taxed article or service, or on the party originally or otherwise supplying or producing the same.² Thus, in taxed imports, the importer endeavours to recover the tax he pays in the prices charged by him for their sale, while the retail vendor will try to recover the tax from his customers; and, when unsuccessful in this, each will, if possible, recover it from the party producing or supplying the goods.

Gustav Cohn observes: "There will be more shifting, the clearer the sense of being unjustly burdened; the stronger the will and power to shake it off, the greater the opportunity given by the economic surroundings for shaking it off. Hence, taxes can be shifted by large employers more easily than by workmen;

¹ "Wealth of Nations" (1811 Edition), vol. iii. p. 267.

² L. von Stein, in his "Lehrbuch der Finanzwissenschaft" (book ii. § 1, pp. 560-61) refers to four kinds of incidence: *ueberwälzung*, *abwälzung* (really, escape from a tax), *rückwälzung* (backward incidence), and *weiterwälzung* (diffused incidence). Von Kaizl's definition of *ueberwälzung* is, "the methods (processes) of individual economic transactions (exchanges) resulting in passing on a present or future tax charge from the tax-payer to others." Quoted from "Die Lehre von der Ueberwälzung der Steuern" (Leipzig, 1882), by Dr R. Meyer, in his "Prinzipien der Gerechten Besteuerung," p. 267. See also Professor E. R. Seligman's recent work, "The Shifting and Incidence of Taxation." New York, 1892.

by well-paid and organised workmen more easily than by others; by combined more easily than by single entrepreneurs; by owners of movable capital than by owners of immovable capital; by men regularly "in the trade" more easily than by outsiders or amateurs; by traders more easily than by the customers who buy from them—or, what amounts to the same thing, traders are better able to withhold the benefit of tax reductions from the classes intended to enjoy it."¹

Alexander Hamilton, an American statesman and financier of eminence, at the close of the last century, whose opinions still have weight in the United States, laid it down as a general principle, "that every duty on imports is incorporated with the price of the commodity and ultimately paid by the consumer, with a profit on the duty itself as a compensation to the merchant for the advance of his money." William Pitt, on similar grounds, maintained that taxes on shops were recouped to the shopkeepers by their customers, who bore the burden in increased prices for the goods sold. In both cases the assumption was that the taxed goods were always sold at prices high enough to recover the tax, a result not invariably attained, as importers and exporters for sale and return, and retail traders have often found to their cost in times of keen competition; though it must be observed that the tax often is recovered on other and different goods, sometimes on untaxed imports or goods not chargeable with excise or other tax. Henry Fawcett² and many other practical statesmen and economists besides Pitt and Hamilton have taken the above view.

M. Proudhon considered every tax passed on to others;³ M. Thiers also believed that the repercussion of taxation went on to infinity;⁴ but M. J. B. Say, who agrees with M'Culloch—that in the long run a tax finds its level—

¹ "Finanzwissenschaft," p. 311. Leipzig, 1883. And quoted by C. S. Devas, in his "Political Economy" (1892). See also T. B. Veblen's Translation of Gustav Cohn's work on the "Science of Finance," § 250. Chicago, 1895. "Shifting of taxation will take place regularly in proportion as these causes are present: (1) Consciousness of unequal distribution of the burdens of taxation; (2) the wish to rid oneself of the unequal burden; (3) the pecuniary" (or other, H.L.R.) "ability to accomplish this purpose."

² "Manual of Political Economy," p. 537.

³ "Théorie de l'Impôt," pp. 264-323. Paris, 1861.

⁴ "Sur la Propriété," La repercussion de l'Impôt à l'infini.

makes the following admission: "Ability to evade taxation is infinitely varied according to the form of assessment and the position of each individual in the social system—nay, more, it varies at different times. Few things are so unsteady and fluctuating as the ratio of pressure of taxation upon each class by turns in the community. As a general principle every tax falls definitely on certain classes of society. Taxes fall on those who cannot get rid of them, for they are a burden that each tries to escape with all his might, but the means of ridding oneself of them are infinitely varied according to the different kinds of tax, and according to the functions that one exercises in the social system. Moreover, they vary according to the time for the same occupations. When an article of merchandise is much in demand, its holder only parts with it for as much as will pay all his charges on it. The tax forms a part of his charges; he takes care to fully recoup himself, and without compunction. An unforeseen circumstance causes the same produce to fall in price. He considers himself fortunate to bear the entire tax in order to facilitate the sale. Nothing is more uncertain, nothing more variable, than the proportion according to which different classes of society bear the taxes. Authors who argue that they bear on such and such a class according to fixed ratios reason on suppositions, which observation of facts is constantly disproving."¹

And M'Culloch admitted that it was impossible to predicate the ultimate effect of a tax on articles of subsistence of the poor;² Dr Farr also deemed it impossible to estimate the incidence of indirect taxation, or its entire cost.³

The arbitrary nature of tax incidence and its uncertainties may be seen from the following common transaction: A grocer pays the tax on a purchase of tea in bond, but feels in no way bound to recover the tax on that particular article; if at the moment there is much sale competition therein, he may find it advisable to recover it in higher prices put on quite different

¹ "Traité d'Économie Politique," p. 367. Paris, 1814. Translated and quoted by F. A. Walker in his "Political Economy."

² "Encyclopædia Britannica" (1860), p. 58, 2 col. Article—"Taxation."

³ *Statistical Society's Journal* (Jan. 1853), p. 13. Article—"Equality in Taxation."

goods, sugar perhaps, or on several articles, often articles consumed wholly by the well-to-do classes; or he may simply treat the tax as a loss, or as a set-off against the high profits of a former tea transaction. This fairly illustrates the difficulty of tracing tax incidence.

M. de Parieu, who devoted to this subject much space in his famous treatise on taxation, wrote: "The tax falls, at all events, directly on him who pays it, if use of the object on which it is assessed cannot be avoided. It is thrown wholly or partially on other tax-payers if use of the object on which it is assessed can be avoided, and the repercussion of the tax is in proportion to the ability to avoid or restrict its use or enjoyment. If he on whom the tax is reflected is in his turn able to abstain from using the taxed article up to the time when he gets the counter-stroke of the tax, he will partly neutralise the effect of the repercussion of the tax in throwing it off either on the original tax-payer or on others." He also remarked that taxes on successions to property by death are not able to be thus shifted off,¹ a position which Professor Bastable considers does not always hold good,² and certainly such taxes may be avoided by timely provision beforehand, not in the nature of *rückwärtzung*, as Stein terms backward shifting, but of *abwälzung*, which is really evasion.

An American writer on tax incidence³ has argued that when one class of property or labour is taxed, and another is exempted, a process of equalisation always goes on. This convenient and agreeable theory for fiscal legislators has no doubt some substratum of truth, it being a recognised fact that taxes, as shown in the tea-duty example, tend to diffuse their incidence beyond the sphere of their primary incidence.

The greatest authority, perhaps, in the United States on tax incidence, Francis A. Walker, writes: "To throw taxes on consumption back upon the capitalist or employer becomes in my judgment a very difficult task, and often quite impracticable. In a state of imperfect competition there is no assurance that

¹ "Traité des Impôts" (1866), pp. 68-69.

² "Public Finance" (1892), pp. 530-31.

³ Ripley and Dana's "American Cyclopædia," vol. xv. pp. 586-87. Article—"Taxation." New York, 1876.

indirect taxes will be diffused equally over the whole community, leaving each class and individual in the same relative state as before the tax. Legislators cannot then adopt the comfortable doctrine of indifference of place and person where and on whom the burden shall be laid. He is responsible for the ultimate effects of the tax he imposes, both as to equities of contribution, and to the general interests of trade and production."¹ Professor E. R. A. Seligman also takes this view in his monograph on this subject.² Quoting the dictum of the Hon. David A. Wells, the American financier, that "taxes uniformly advanced on all like competing property will always tend to equate themselves, and will never be a special burden to those who originally made the advances to the Government," Walker remarks: "This diffusion theory of taxation rests on the assumption of perfect competition. It is true to the full extent only under conditions which secure the complete mobility of all economic agents. As far as any portion of the community are impeded in their resort to their best market by ignorance, poverty, fear, superstition, misapprehension, inertia,³ just so far is it possible that the burden of taxation may rest where it falls first." As Professor Thorold Rogers has said: "It needs an effort on the part of the person assessed to shift the burden on the shoulders of others."⁴

Adam Smith, in his remarks on the incidence of taxation, seems throughout to assume that the tax-payers are economic men, who know their full rights and interests, and will always energetically act in accordance with them.

Touching the incidence of local taxation, Dr Thorold Rogers has remarked: "The general conclusion which I gather from the survey of this subject is, that a large portion of so-called local taxation is beneficial outlay, and in strictness should no more be called a tax than the appliances of business are a tax on the trader; that as long as the tax is levied on the

¹ "Political Economy," pp. 460-61, ¶ 489. Lond. 1883.

² "The Shifting and Incidence of Taxation." New York, 1892.

³ And it might be added, "or other causes."—H. L. R.

⁴ "Political Economy," p. 459. And Lord Farrer truly observed, in his evidence before the "Select Committee on Town Holdings," 1890 (Question 1246): "Whatever is the theory on these matters, a tax is very apt to stick where it first falls."

occupier, and is distributed evenly, the occupier pays it, and not the owners; that in a great number of cases the distribution of local taxation is a solid advantage to the land-owner, who, before his rent is possible, gets paid a part of the necessary charges incurred out of the pockets of other people, and that the presumed incidence of local taxation, for the reality of which no proof has been given, has been made the apology for a series of enactments, many of which have been exceedingly injurious to the mass of the people, none of which can be justified on economical grounds, all of which are, as the real state of the case is discussed and comprehended, indefensible and therefore in danger.”¹ This is quite at variance with Adam Smith’s opinions.

M. Du Puynode, who studied tax incidence chiefly in reference to its action on wages, pay, salaries, etc., observed: “According to my opinion, and before me, according to Buchanan’s and J. S. Mill’s opinions, a tax on wages falls finally, always and entirely on the workmen.”² This again is opposed to the views of Adam Smith, who well understood what Von Stein has so carefully explained, that special taxes on labour’s needful expenditure were equivalent to taxes on the wages of labour. Had Du Puynode’s opinion been confined to taxes on unskilled labourers of all kinds, and had the final tax incidence not been pronounced in such unexceptional terms, his dictum might have been admitted by economists who have studied the subject. The best criterion of a workman’s ability to shift off a new tax affecting his wages or expenditure is the standard of comfort enjoyed in his particular class; if the standard remains unchanged, he probably avoids its incidence, provided no other economic cause affects the standard.

One theory of Lorenz von Stein is—that a tax reproduces its cost in the value or price of the article or service taxed; but unless the government expend the tax wisely and economically there seems insufficient ground for assuming

¹ Article on “Local Taxation,” in *Statistical Society’s Journal* (1870).

² “De la Monnaie, Du Crédit, et De l’Impôt,” pp. 365-69. See also pp. 215, 321. Paris, 1853.

that the taxed goods or services will correspondingly rise, putting out of sight other possible influences.¹ In many respects Stein has followed Adam Smith's views concerning tax incidence, which, since the search-light of modern analysis has been directed on them, do not appear as valuable as other branches of his vast contributions to fiscal and general economic science. To some extent he held the now-exploded physiocratic doctrine—that all taxes fell on land. Modern research proves that the views of Ricardo, and even of Mill, on tax incidence, much need modification and supplement, as Professor Bastable and others have clearly demonstrated.² His, and Mr Cliffe-Leslie's analysis of tax-incidence, those of Messieurs H. Passy, and Yves Guyot in France, of Francis A. Walker and E. R. Seligman in the United States, and of several German economists, show that the power of avoiding the incidence of taxation and throwing it off on others is infinitely varied, according to the particular tax, the economic and social position of the tax-payer, producer, or user, his individual energy, ability, monopolising power, etc., and other conditions affecting demand and supply, all proving that taxation, as a head of wealth division, is closely allied to the kindred subject of wealth exchange, just as wealth production and wealth consumption are connected as complimentary phenomena.

It may be observed that the effect of taxing nominal wealth, or excess above real value of tax objects, is equivalent to an increased tax rate on the actual value of the property represented, its tax incidence following the same general laws.

It must be remarked also that other charges or costs besides taxes tend to be shifted and diffused in proportion to their uneconomic character.

¹ "Lehrbuch der Finanzwissenschaft," part ii. § 1, pp. 550-56, etc.

² "Public Finance," pp. 333-36; Professor Seligman especially, in his "Shifting, etc., of Taxation."

§ 78. Development of the problem of Tax Incidence

THE problem of tax incidence, as developed by modern economists, with its shiftability and diffusive tendency, may be thus summarised: (1) Persons or associations having a monopoly in natural agents, land, mines, etc.,¹ in commodities or goods, especially those of primary utility or necessity, or possessing special skill, talent, or other valuable knowledge or power constituting a monopoly thereof, but not exercised to its extreme profitable limit, are able to recover from others taxes imposed on these monopolised goods or serviceable powers, though often not fully or partly recovered from various causes, such as love of ease, carelessness, contentment, gratitude, friendship, esteem, pity, and other influences; moreover, this ability to recover taxes, as well as other charges, costs, or claims upon them, varies with the character and extent of the monopoly they enjoy, and the degree in which it is exercised for gain.² (2) All others feel the burden of taxes imposed on the goods or services they consume, use, enjoy, exchange, etc., in proportion to their inability to refrain from them, to moderate or restrict their consumption, use, or enjoyment of them, or to shift the taxation off on others by some means or other. (3) There is a constant gradual process of tax diffusion or equalisation at work in every tax area, the tendency of which is to shift the burden of taxation disproportionally on those who, from lack of energy, ability, or opportunity, or from misfortune of some kind or other, cannot compete successfully in attaining competency, or superfluity of wealth and the enjoyments of life, and whose services in their respective callings chiefly represent unskilled labour. (4) Taxes in the course of their

¹ Even in the case of new rack-rent leases a margin for increased rental soon accumulates in other forms than rental, such as new constructions and improvements of a permanent kind begun by tenants, etc., and reverting to owners in course of time.

² M. Eugène Daire takes a somewhat similar line of reasoning. See Footnote in his "*Cœuvres de Turgot*," vol. i. p. 451. Paris, 1844. They *can* recover such taxes if desirous to do so, but their private taxation of the community in heir exalted charges usually contents them.

incidence and diffusion usually inflict injustice and inconvenience at their successive stages, varying with the degree of initial injustice caused by their original imposition. (5) The more complete the freedom enjoyed in the use of natural agents, land, etc., and labour, and in the employment of capital and labour-saving devices of all kinds, and the more universal, moderate, and equitable the original taxation of material, exchangeable wealth, the more readily will tax incidence diffuse itself naturally, equitably, swiftly and insensibly. The shifting and diffusing phenomena of taxation would soon escape notice were there universality in the taxation of wealth objects at equal rates on their respective values; the tax would then rest where it fell, so uniform would be the effect of a general tax rate.

The interests of the entire community in a tax area, therefore, are served by destroying monopolies, and those of the more eager monopolists by creating and maintaining them, and this conflict of interests will probably continue till human nature changes.

In conclusion, I must quote some passages from an article on taxation published by M. H. Passy in 1852. He wrote: "It is easy to foresee that the time is drawing near when people will attach great importance to all that concerns the forms and the incidence of taxes. Everywhere the inevitable progress of the democratic spirit will lead to the examination of questions of taxation, and it will become more and more difficult to maintain systems of taxation whose existence is not in harmony with the "right" belonging to each, of not having to contribute to public expenses except in proportion to his means. . . . It is for the Government to reckon with this natural tendency of minds, and learn to adapt themselves to the changes which have become needful. There has been in the systems in vogue in the past a large number of mistakes and injustices unperceived even by those who suffered most therefrom," etc.¹

¹ "Dictionnaire de l'Économie Politique," p. 908. Article—"Impôts." Paris, 1852,

§ 79.—The Theories of Taxation

MANY and conflicting have been the theories, or leading general ideas, respecting taxation. The British, French, and American economists most specifically dealing with tax theories are J. S. Mill (1863), M. de Parieu (1866), and General F. A. Walker (1883), who have practically originated and established most of the terms describing them.¹ Walker, who has most thoroughly dealt with the subject, has classified the theories nearly in the order shown below, but for the sake of convenience I have abbreviated his language, have commented thereon, and added some other theories.

§ 80.—(1) The “Physiocratic” Theory

M. CLAMAGERAN, the French economist,² has thus described it: “Its supporters maintain, in the first place, that the land alone gives a net revenue—that is to say, a revenue which exceeds the necessary expenses for the support and maintenance of cultivation and of the cultivators; then they maintain that this net revenue is the source which supports all other revenues; and thence they infer that it is useless to pursue these fleeting incomes along the thousand channels in which they circulate, that it is more convenient and more just to reach them at their source, and they conclude with the theory of a single tax upon land revenues.”³

The late Henry George was the most eloquent and best-known exponent of this long-exploded theory, though towards the close of the last century, and in the early part of this, it found many distinguished advocates, especially in France.

In a State quite isolated from other communities, the theory might prove practicable; when it found favour with economists, nations were divided and estranged by wars, hostile

¹ Mr J. N. Keynes (1893) has also noticed the subject in his work, “The Scope and Method of Political Economy.”

² Author of “L'Histoire de l'Impôt en France.”

³ Quoted in Walker's “Political Economy,” p. 437, etc. Lond, 1883.

tariffs, and other impediments to commerce and exchanges now much modified or removed. Taxes have been reduced or repealed, inventions and discoveries have improved and greatly reduced the cost of sea and land freighting, and other facilities for exchanges have been introduced, making it impossible for a State to remain isolated from the world's business and exchanges. As a natural result, the prices of produce and manufactures of fertile countries, having cheap labour and light taxes, and not handicapped by the cost of large armies, navies, etc., soon advantageously compete with the products of "free trade" countries, and "protected trade" countries, especially when these are heavily burdened with public debts and taxes; and this successful competition extends to the markets of all countries trading with them. A too heavily land-taxed commercial State must lose its commerce as certainly as other States overburdened with taxes, especially would a sole and heavy land-tax thus act in the United Kingdom, where the land tenure and fiscal laws enable owners easily to raise rents and prices on many kinds of landed property, thus shifting the tax on the occupiers or users of land.

Another objection to a sole land-tax is—that land in its pristine or prairie state, unextracted mineral wealth, and the rest of Nature's elements, constitute the only really raw material on which human labour or productive power can operate, and this truly raw material, land, considered apart from capital, costs little for State protection and control, and therefore, if taxed at all, should be lightly taxed. The fiscal maxim—"It is unwise to tax raw material"—if confined in application to objects into which no human labour has entered seems perfectly sound, and its corollary, proportioning taxation to the value of objects into which human labour has entered, seems equally sound and reasonable, for the action of the economic law of demand and supply on such values provides the natural corrective.

The writer of the article "Contributions" in the "Dictionnaire Universel,"¹ remarked of the land and house tax in France—

¹ Larousse's, p. 1^{re}. Paris, 1873.

the *Impôt Foncier* (then, A.D. 1790, the *Impôt Unique*)—that the requirements of the nation soon made it felt that there was a necessity to create other sources of taxation. Society, he observed, really possesses something else besides land and buildings; it has movable wealth, the importance of which is always increasing, and as the State protects it, and takes it under its care, it is right that it should contribute to its expenses. The *Contribution Mobilière* was accordingly established in 1791.¹

But there are now few who support this physiocratic doctrine; as a theory it has long been discredited and abandoned by economists of repute; but it must be remembered that the chief aim of this school was to remedy, by direct taxation, the injurious effects of indirect taxes, whose incidence was shifted on the classes least able to bear them.

§ 81.—(2) The “Cost-and>Returns” Theory

UNDER this title I have classed together the “Quid pro Quo” and the “Social Dividend” theories, for they are practically the same. This theory rests on the two ideas that the members of a community should contribute to the public expense in proportion to their cost to the State, and in proportion to the benefits returned by such services. They may, therefore, fitly be united and termed the “Cost and Returns” theory.

Under any equitable tax system conceivable, this joint theory must find some place, for *cost* must enter into the price of Government services as it does into that of other human needs, and estimates of their value or advantage—i.e. their *returns*—will inevitably be made, however imperfectly, by those obliged to defray the cost and expecting proper returns for their expenditure. The public revenues of all civilised nations mainly depend on taxation, Government cost must, therefore, largely influence and regulate the rate of taxation and the aggregate amount to be levied.

It is, no doubt, impossible for a tax-payer to ascertain whether the taxes he pays are equivalent in value to the

¹ Larousse's, p. 119. Paris, 1873.

benefits he and his family receive in return; whether a just proportion of a year's public expenditure is devoted to the protection etc., of himself, family, and property; or even what such protection, etc., should cost. In his financial relations with his Government, he is in much the same position as the members of a family are with regard to the head of such family. At one period, one member, for some particular reason, receives more attention, and is the object of more expense than the other members; at another time, some other or others of the family receive more financial consideration; but as with a family it is impossible to preserve an equal ratio in applying the family income to its several members, or to maintain a fixed proportion of relative expense, how much less can Governments (State or local) do so in applying tax funds and other resources to the different tax contributors. Nevertheless, it seems highly probable that closer adherence to sound fiscal and financial principles and methods, including a stricter system of accountancy, should make this proportionality between a tax-payer's payments to the State and the benefits received from its institutions, more generally recognised than it now is.

Professor Sidgwick's difficulty in applying this theory to certain important items of Government expense—the national debt interest, the regal expenses, etc.,¹—may be due, perhaps, to his having scarcely fully realised that the past, the present, and the future action, policy, and life of a nation (including its Government) must be considered as one entire and continuous act, for which the present and future generations are, and must be responsible, a principle constantly recognised and acted upon in other departments of social legislation and statecraft—in fact, it is an administrative necessity.

Mr W. L. Sargant, another writer who has noticed Tax Theories, is a strong supporter of this one, and, referring to Adam Smith's illustration, that the whole country must be viewed as one vast property in which each of us has one or more shares,² maintains that his own argument—that a reimbursement of

¹ "Principles," etc., pp. 560-61.

² Our respective "stakes in the country," as Smith elsewhere termed it; our "estate," as John Locke called it.

Government cost is the just ground and measure for each man's taxation—is still correct.¹ M. R. Gandillot supported this Cost theory with much cogency, though he urged the principle beyond all practical limits.²

Next comes a group of theories depending more or less on equity in contribution, "not differing greatly among themselves," as Walker has remarked, viz. :—

(3) The "Equality-of-Sacrifice" theory.

(4) The "Contribution-according-to-Ability" theory.

(5) The "Leave-things-as-you-find-them," or the "Equality-of-Pressure" theory.

§ 82.—(3) The "Equality-of-Sacrifice" Theory

THIS term, says M. De Parieu, in his Treatise on Taxes, was first used by an English writer, Mr G. W. Hemming,³ and De Parieu gives considerable prominence to it as a theory, only abandoning it at last on account of its tendency to injustice and its impracticability. But is not the idea of "sacrifice" altogether out of place? It is not the custom to term payments for rent, clothing, food, and other ordinary needs of individuals *sacrifices*; it is clearly a *duty* to pay the State for its necessary services, and the idea of "sacrifice" can only rightly come in when taxation is made the excuse for exacting from tax-payers something beyond the actual and proper cost of State services in the form perhaps of a disproportional rate of tax imposed on their wealth or income.⁴ As Sir Louis Mallet has aptly observed: "The idea (theory) appears to have its origin rather in the region of sentiment than in that of reason."⁵

¹ See "An Undiscriminating Income Tax Reconsidered." Article in *Statistical Journal* (September 1862), p. 350.

² In his "Essai sur la Science des Finances." Paris, 1840.

³ "Traité des Impôts," pp. 23-26. R. Meyer attributes the theory to J. Craig, also a British economist. "Principien," p. 182.

⁴ M. de Parieu has treated the question of "progressive" or "graduated" taxation under this "Equality-of-Sacrifice" theory, but as the theory seems altogether opposed to equality—to be *nominal* equality only—I have noticed the subject of "graduated taxation," after describing the great principle of "proportionality in taxation," of which it is the exact negation.

⁵ "The National Income and Taxation," Cobden Club Essay, pp. 28-29.

Francis A. Walker's theory of taxing "faculty," or the amount of mental and physical ability to earn possessed by a subject—his productive power or helpfulness—seems, from the way in which he defended its abstract principle, to belong to this "sacrificial-equality" theory. The chief difficulties encountered in its practical application are these: How is the taxable faculty to be measured or assessed? What basis for its fair taxation can be selected? Walker, however, frankly admits it is an impracticable theory to carry out as a whole, even though (as he remarks) the largest tax of modern times in the most highly organised societies of Europe—the obligation of compulsory service in the army or navy—is assessed on this principle; but this compulsory service must really be viewed as a *political necessity*, imposed for a time, however abnormal its character, in consequence of the hostile attitude and the ambitious or revengeful designs assumed by, or attributed to, certain Continental powers, and is simply a monstrosity, so far as economic science is concerned—a return to the barbaric practices of ancient nations when almost all the males had to bear arms.¹

Under ordinary conditions a man's personal abilities specially cost the State nothing, either in their acquisition, development, or employment; indeed, the truly educated classes cost the State less to protect than the ignorant classes, and it seems opposed to all sound policy to tax a subject in proportion to his usefulness, which may be, and very often is, applied in large measure to the advantage of the common-weal, whether such subject intends it or not.

§ 83.—(4) The "Contribution-according-to-Ability-or-Means" Theory

DE PARIEU, in reference to Adam Smith's first Canon of taxation—"Subjects should contribute to the support of Government in proportion to their respective abilities or means"—observes that it is only a repetition of a form employed in the

¹ M. Vacherot, a French author, wrote: "La conscription est l'impôt du sang, le plus odieux de tous, en ce qu'il ne pèse que sur le pauvre."

Poor Law Act (43rd of Elizabeth) establishing the Poor Rate, and cites the following remark of Mr G. W. Hemming:¹ "Smith only makes one step in the direction of showing what is ability to pay taxes, and then the roads diverge in a hundred different ways."²

Indeed this question—What is equality in taxation?—is the very crux of the whole problem. Arthur Young, supporting the theory, says: "By ability must not be understood capital or income, but that *superlucration* (as Davenant calls it) which melts into consumption," and, accordingly, he proceeds to advocate taxes on consumption and expenditure, which I shall notice presently as belonging to a separate theory.

Other views of equality, such as equality of taxation on income, the ideal of Sismondi, Held, Lorenz von Stein, R. Meyer, and many others; of equality by taxing all fixed capital only, the idea of George Holloway;³ and the apparently just idea of equality by taxing property and income jointly according to their relative proportions, whatever those may be, which De Parieu seems to think is probably the true principle,⁴ have severally been regarded as fitting systems of taxation amongst those accepting the general principle of tax equality. I shall have more to say on these matters of equality and ability later on, when dealing with Tax Bases and Tax Principles.

§ 84.—(5) The "Equality-of-Pressure," or "Leave-things-as-you-find-them" Theory

THE last term for this theory is not very intelligible. The theory generally may be stated thus: It assumes that a tax system, whether in the form of a single tax, or of several taxes and tax bases, should be spread over as many tax objects and

¹ In his essay "A Just Income Tax: how possible," p. 7.

² "Traité des Impôts." Note on p. 23.

³ In his work "Civilisation, Taxation, and Representation," p. 114, etc. Lond. 1867. M. De Girardin, and M. Menier in his "L'Avenir Économique" and "Theory, etc., of a Tax on Capital," supported this theory. M. Yves Guyot also approves of it; see his "L'Impôt sur le Revenu" (1887), pp. 221-22.

⁴ "Traité des Impôts," pp. 31-33.

persons as possible, thus reducing the rate of the tax, or taxes, as much as possible, so that each person and class may feel the pressure of taxation as lightly as possible, and that no tax can be just unless it leaves individuals in the same relative condition in which it found them, the presumption being that the tax expenditure confers equivalent value to the person and estate or property of each.

The Edinburgh Review supported this theory in the year 1833, and the late Mr Duncan M'Laren, who for many years represented Edinburgh in Parliament, was its consistent advocate, if not its actual originator, though he restricted it to a tax on property. The late Lord Sherbrooke (Robert Lowe), when Chancellor of the Exchequer, in 1870, practically applied this theory (not confining it to one tax, however), observing that "taxation should be levied, as far as possible, so as to leave things as it finds them, and not to give people inducements to alter their method of trade, and do things which do not tend to the improvement of the revenue." He strongly advocated the theory of "Equality of Pressure" (as he more lucidly termed it), as also, singularly enough, did the well-known protectionist writer, Arthur Young, in his "Political Arithmetic" (1774), observing: "If I were to define a good system of taxation, it should be that of bearing lightly on an infinite number of points, heavily on none," though he added, somewhat inconsequently, "in other words, that simplicity in taxation is the greatest additional weight that can be given to taxes, and ought in every country to be most sedulously avoided."¹

But simplicity in taxation, truly so called, affords the best means of finding out what the real pressure is, important information requisite in effecting its reduction, whereas a complicated and diverse system certainly seems best adapted to conceal the greatest pressure and most unjust incidence.

¹ Compare also Sir S. Buxton's "Finance and Politics," vol. i. p. 135, and Note on the same page.

§ 85.—(6) The "Economic" Theory

JOHN RAMSAY M'CULLOCH was the chief exponent of this theory. As Walker remarks, he "boldly proposes to abandon altogether the attempt to follow out the equities of contribution." M'Culloch's idea was, that "the distinguishing feature of the best tax is not that it is most nearly proportional to the means of individuals, but that it is most easily assessed and collected, and is at the same time most conducive to the public interests." General Walker proceeds to state M'Culloch's theory in as favourable terms as its author could well have desired:—

"The line of reasoning leading up to such conclusions may thus be stated: Government springs from injustice, and naturally must commit more or less injustice. It is useless pursuing equities of contribution; they will elude you. It is admittedly impossible to distribute equally the benefits of government; why attempt the hopeless effort to apportion its burdens with absolute justice? Get the best government you can, maintain it as cheaply and efficiently as possible, and collect revenue for that end by the easiest, cheapest, and simplest means. By undertaking to effect an equitable apportionment of the burden through complicated methods, or by personal assessments, you are not only likely to fail, you are certain at best to add to the aggregate cost of the service, and are in great danger of generating new and distinct evils by disturbing economic relations and obstructing the processes of production and exchange."

It seems sufficient reply to all this to remark that the paramount attribute of government is justice, and though it may be, and doubtless is, impossible to secure absolute justice in the levy of taxation, and the distribution of its advantages, government is bound to maintain as much justice in these matters as practicable, for in no department of statecraft is equity more essential, directly affecting, as taxation does, the financial interests of all subjects and citizens, however cleverly its effects may be concealed in the price of commodities and services.

M'Culloch, therefore, is found, like A. Young, Dr Davenant, and many other writers, advocating taxes on expenditure or consumption.

Francis Walker winds up his remarks thus: "A consideration of these different theories is necessary before examining any specific tax, or group of taxes, or existing tax system—as answering the requirements of 'equitable contribution' or of 'expediency'—how far it secures to the State the necessary revenue with the minimum irritation, expense, and loss in collection, and disturbance to trade and industry."

§ 86.—Some minor, incomplete, or impracticable Theories

BUT besides the theories noticed by Walker are some other incomplete or impracticable ones, such as that of taxing the "use" of property instead of its "ownership,"¹ a theory very acceptable to wealth owners, and freely practised privately and publicly when possible in the United Kingdom and elsewhere; also, the theory of that original writer, Sir John Sinclair, who held "that the State should only exact what the subject ought spontaneously to have given"—which scarcely aids us much in the enquiry. There is further the theory, or rather simile, of the late William Newmarch, F.R.S., etc., which appeared in a paper read at the Social Science Congress, Leeds (1871), and was summed up in these very pertinent remarks: "It is the business of the people to provide a surface for taxation, and the business of the Chancellor of the Exchequer to skim off from it, with the lightest, most scientific, and most seductive touch, the smallest portion possible, and he will be wholly unfit for his office if he does not now and then contrive to reach the growing incomes from real property."² The taxation of "superlucration" was his objective.

There is also Sir W. Petty's theory of taxing "superlucration" expenditure, supported by Davenant, Arthur Young, and other writers, British and foreign, requiring most intimate knowledge of the means and expenditure, necessary and voluntary, of all contributing tax-payers to enable the revenue officers to decide

¹ Proposed by Professor Crestadoro of Turin.—*Social Science Trans.*, October 1878.

² *Trans. Social Science* (1871), Economic Section.

what was and what was not "true superlucration" expenditure, and inferentially, what was rightly "taxable" expenditure. To state such a theory is simply to condemn it; its obvious impracticability lies in the difficulty of laying down fixed rules for deciding what are "luxuries" and what "necessaries" as regards different persons' needs and obligations in social life.

§ 87.—Two later developed Theories

THERE are also two more recently developed theories requiring notice as representing two important schools of modern thought and practical policy. The first I term :—

§ 88.—(7) The "Multiplied-Taxes-and-Tax-Bases" Theory, with Compensation Taxes and Expenditures

THIS important and largely applied theory seems to have framed itself round the central idea that, by spreading as many fiscal nets as possible, at different levels and angles, no subjects can escape the incidence of some tax or other.

In applying this theory it seems to have escaped attention that the incidence of these numerous taxes tends to fall with particular severity on certain classes and individuals, usually those having least political influence and ability or natural opportunities for shifting off their tax incidence on others better able to bear it. Unskilled labour of most kinds is especially affected by the incidence of varied or multiple taxation, its low rate of remuneration being due not only to the ample supply of such labour, but also to the fact that the custom of paying the lowest possible rate of wage in such occupations has now assumed almost the force of a law, little regard being paid to claims for a living wage in the United Kingdom, any deficiency being left for compulsory Poor Relief and Education Relief rates (paid under unfair assessments) and for voluntary charity, to make good.

Like M'Culloch's Economic theory, this one abandons attempts to secure equality in taxation, and endeavours, by mere multiplication of imposts, to draw money from all possible sources of wealth, regardless of economic and equitable principles.

Some of these taxes, no doubt, are termed "compensating or "adjusting" taxes — for instance, the British Income tax, the German *Einkommensteuer*, the late *Klassensteuer*,¹ and the French *Patentes* tax, etc., but these last three auxiliary taxes were imposed at very much lower rates than those of our Income tax, and may partly equalise tax incidence in their respective schemes of taxation; but our Income tax but very slightly recognises the immense difference between the tax ability of incomes derived from property, and those gained by mental and bodily labour, and though the maximum rate of the tax is now (1898) restricted to 8d. per £1 of income, it acts as a severe fine on labour as compared with capital.

To those who have studied the incidence of taxation, and understand how readily it may, in some instances, be passed on to others, whilst in other cases it is found impossible to shift it off at all, who are acquainted with the complex character of British taxation, with its numerous exceptions, its differential rates for different taxes, its partial and total exemptions, and its direct and indirect tax bases, and further, with the very profuse application of the public rates and taxes to the benefit of special classes only, the description of our Income tax as an "adjustment," or "compensation," tax (as writers have termed it) becomes strikingly absurd. The annual grants to special classes from British imperial and local tax funds might, with as much fitness, be termed *adjusting, or compensatory finance!*

The knowledge that grave injustice must result from these numerous taxes and tax bases has perhaps suggested "compensation taxes" and "class expenditures," but they really create fresh anomalies, and increase the burdens of classes already much overtaxed, those, for instance, of men with families to support, and solely dependent on wage, fee, or salary incomes of from £160 to £700 a year.

And this theory has been viewed as practically just, even by

¹ The German *Ausgleichungssteuern*. De Parieu observed that the incidence of the Prussian income tax was about 4½d. or 5d. a head instead of 7s. or 8s. a head as in England ("Traité des Impôts," p. 50, Note 3). The British tax is now (1897) about 8s. 2d. a head, about twenty times the amount of the Prussian tax rate, as above quoted.

statesmen and economists of repute. The late Sir G. Cornewall Lewis, Henry Fawcett, De Courcelle-Seneuil, Leroy-Beaulieu, and others of equal standing, have endorsed it as a tax system, and its adoption by many nations would seem to confirm the theory, however incapable it may be of scientific defence and justification on equitable grounds.

It would seem that political exigency has found this theory of multiplied taxes and tax bases the easiest means of extracting as large sums as possible from the pockets of the people to meet an ever-growing expense for their Government, chiefly due to the assumption of new functions by the State and local powers, and that we must be content to await the presentment of some more equitable, economic, simple, and popular theory, easily "understood of the people," before this "conglomerate" theory (or "plural" or "multiple" tax system, as Professor Bastable terms it)¹ will become discredited and superseded.

Lastly, may be added :—

§ 89.—(8) The "Non-Interference-with-Exchange-and-other-Business-etc.-processes" Theory

THIS is not really a distinct theory, being rather a branch of the Equality-of-Pressure theory, and especially concerned with those principles which tend to "leaving things as you find them"; but in the United Kingdom, under the inspiring demands for freedom in trade, manufacture, commerce, currency, etc., it has gradually assumed the character of a complete theory. Originally treated by M. Turgot, in France, as a valuable administrative tax principle, the theory seems almost to have established itself now as the fiscal embodiment of the policy of "Laissez-faire" in Statecraft, however partially and imperfectly carried out in practice, and logically is applicable also to all the operations, machinery, and devices used in business, such as warrants, orders, contracts, leases, transfers, exchanges, receipts, bank-notes, cheques, etc., which should equally be free from public taxation and interference.

¹ "Public Finance," p. 315, § 6.

As a theory, it seems to involve the principle that taxation should not be imposed on wealth in respect of its actions, movements, or uses, which leads to the inference *that a condition of equilibrium, balance, or rest, is that most favourable for tax imposition.*¹

Other theories have been advanced besides these noticed, but, being either slight modifications of them, or negative modes of stating them, need not be referred to.

§ 90.—The Tax Theories generally considered

ATTENTIVELY considering these theories it will be found that each contains at least one sound general tax principle (sometimes two or more are embodied therein) upon which the theory is made to hang, but not one of them appears sufficiently broad and general to include and agree with all the soundest, most incontrovertible, and universally accepted canons, principles, or maxims of the science; one theory maintains the principle of relative cost and tax charge; another, that of economy of method; a third, that of equality of incidence or pressure, and so on; but with no single theory can all the generally approved principles and maxims of taxation be reconciled and made fairly consistent, though the “equality-of-pressure,” or “leave-things-as-you-find-them” theory, partly from its passive nature and indefiniteness as to method, and therefore easy association with, and adaptation to other tax theories and principles, and from its plainly desirable objective, would seem the most comprehensive and suitable.

¹ This subject of “tax-interference” has also been noticed under the head of “Exchange and Circulation of Wealth and Value” (§§ 37-39), and in the “British Tax-payers’ Wrongs” (pp. 21-23, 48-57, etc.), and dealing with the subject of Tax-Bases, I shall also have to allude to it, and again more briefly under the head of “Tax Principles and Maxims.”

§ 91.—Tax-Bases

UNDER this head might be discussed the arguments for and against the various taxes, tried in different countries from time to time. Indeed it is a field wide enough for examining and testing the general issues of fiscal principles and methods.

In the "British Tax-payers' Wrongs," my criticisms on the different taxes forming our central and local tax systems chiefly hinged on their bases, and in this part of my work each head dealt with has more or less led to the crucial problem of discovering the most equitable, definite and certain, convenient, and economical basis, or bases, whereby to measure or assess the true taxability of individuals, families, or tax areas, with due regard to cost and benefit, and not to mere taxable capacity. Few prefatory remarks therefore are needful.

My definition of "Tax Bases" was: "Persons and wealth-objects, or particular classes, kinds, attributes, or symbols thereof, offering directly, or under certain conditions of use, occupation, action, or association, sufficient capacity for measurement and constancy of nature to serve as standards for assessing taxation on similar persons, wealth, objects, etc., before levying it on the tax subjects or tax areas legally chargeable therewith."¹

For example, in taxing wealth-objects, say houses, either the attribute of value, of "annual value,"² (rental for a year's use), the number or area of windows, the number of hearths or chimneys, or some other element common to all houses alike, may serve as a tax basis; in taxing the individual, by a simple "poll tax," without other qualifications, the basis is—the number of the inmates of a dwelling.

In some cases bases are qualified by circumstances or conditions, as in railway-travelling taxes, where the number of travellers is conjoined with other controlling elements,

¹ § 71. This complex definition necessarily results from the complex and diverse forms of taxation adopted: a simple and comprehensive tax basis seems the chief object of attainment in truly economic fiscal reform.

² A misleading term.

class of carriage, and locality, to form the tax basis. It is obvious that a basis may be made too complex for practical use in daily business, a common cause of failure in discarded taxes.

The word "basis" implies stability, absence of fluctuation or irregular movement, a condition favourable, if not absolutely essential, for the purposes of measurement and comparison.

Thorold Rogers, commenting on Ricardo's contention that there should be no taxes on "savings" as a basis, remarked: "It was strange that he did not see that the only fund which can be taxed is what the individual may save.¹ As labour certainly cannot be viewed as a "fund," his argument is so far incontrovertible, and taxes being generally made payable in the form of exchangeable wealth, and this wealth being in all cases the savings of some one or more, it follows that savings constitute the only "fund" for supplying tax moneys, as they form the only "fund" for meeting all other claims for services. But in some countries personal service or "labour," is largely used in the discharge of public claims, chiefly for military services, though as a tax basis it has always proved most unsatisfactory, owing to the difficulty in assessing its value so as to satisfy taxpayer and taxee.

Bases must be determined by the taxing authority, not left to the choice of the tax-payers, like double standards of currency for paying and receiving have sometimes been left at the option of debtors or creditors, and always with most injurious results. Dowell, in his "History of Taxes," has well described the advantage once taken by English tax-payers from loose rules respecting the assessment of property on the bases of "*in terris*" and "*in bonis*"; those whose property chiefly lay in one of these forms could get assessed on the basis of the other form, so the assessment system soon got confused, and broke down completely.²

Sir John Sinclair, in his work "On the Revenue," observed: "The great extent of taxation is also founded on the avarice of rulers, who naturally imagine that by a variety of taxes

¹ "Work and Wages," p. 524. Lond. 1884.

² "History of Taxation and Taxes in England," vol. i., p. 194. Lond. 1884.

they may contrive to draw money out of the pockets of their subjects in an imperceptible manner, and, consequently, to an extent which it would be dangerous to attempt in a manner more open and palpable.”¹

In this sentence attention is called to two matters closely affecting tax bases, viz.:—The multiplication of taxes, and therefore of tax bases, and, indirect (*i.e.* hidden or concealed) taxation, and therefore, of indirect tax bases; it will be best to consider these two questions first under the heads of “Multi-form Taxes and Tax Bases,” and “Indirect Tax Bases,” or “Taxes on Consumption, Expenditure, Use, Transfer, etc.”

§ 92.—Multiform Taxes and Tax-Bases

HAVING already dealt with this subject as a distinct tax theory, I need only add that a variety of taxes and tax bases naturally entails complex and expensive administration. Could a single sufficiently broad basis be found, comprehensive enough to include all exchangeable wealth deriving protection, value, and other advantages from State and local Government institutions, such a basis would obviously be that most likely to meet the requirements of justice, of certainty, of political and social convenience, and of prudent economy. Apparently, in despair of finding such a basis, taxing powers have usually resorted to this method of multiplied bases, these again later on being altered and added to in response to the particular social, financial, or political exigencies of the moment.

It is vain to suppose that any processes of compensation or “give and take,” such as adjustment taxes, or special class expenditures, can secure equality of contribution and advantage between class and class; the problem only becomes more complicated thereby, confused as it already is by the effects of shifting tax incidence and tax diffusion. The more numerous the taxes and tax bases, the rates of taxes, and the exemptions and other differences admitted in the general tax system, the more difficult naturally becomes the problem of attaining true equality in taxation by means of a measuring standard or basis.

¹ P. 55. Lond. 1785.

§ 93.—Indirect Tax Bases—Consumption, Expenditure, Use, Transfer, etc.

SIR JOHN SINCLAIR'S reference to the insidious nature and action of much of the English taxation of his time was essentially a protest against "indirect tax bases." Under this title, and that of "direct tax bases," the controversies respecting the justice or injustice of tax incidence have generally been fought; though, as M. H. Passy and other writers have remarked, the classification is far from satisfactory.¹ There is not a single tax whose incidence cannot, under particular conditions, be shifted on to other than the original payers of it, when, of course, it becomes an indirect tax.

Indirect taxes, it seems to me, are properly those based and assessed on the *receipt*, as well as on the *consumption, expenditure, use, and transfer*, etc. of wealth and value (nominal or material), whilst direct taxes are those on material wealth *in situ*, or in possession; but as the term "indirect taxation" has so generally been applied to taxes on consumption, expenditure, use, transfer, etc. only, I will treat it here in that sense, and later on consider the basis of income, and, as these bases of expense and income severally are discussed, they will be contrasted with the direct taxation of wealth and value *in situ*, or in possession.

De Parieu described the difference between direct and indirect taxation thus: "With French administrators, every tax which falls on a tax-payer nominally designated, to be demanded from him *at certain stated periods of time*, is a direct tax. A tax is, on the other hand, indirect when it is rather assessed on the object than on the individual, or, at least, when it does not affect the tax-payer except in an intermediate way, on occasion of an act without continuity or regular recurrence, such as an act of consumption, an acquisition."² Income clearly might come under this last term.

¹ "Dictionnaire de l'Économie Politique," p. 901, col. 1. Paris, 1852.

² "Traité des Impôts," Introductory Chapter, pp. 10-11. I have italicised the reference to time.

M. R. Gandillot, after classifying taxes as direct and indirect, observed: "We term 'direct,' those taxes which are levied on tax-payers according to their names, according to the land they possess, the room they live in, their position as a merchant, a banker, or any other actual fact relating to their means or station in society; 'indirect,' those taxes which affect persons, not by means of nominal lists, but in respect of tariffs, and in proportion as the facts which concern the application of these tariffs manifest themselves."¹

One of the lecturers on Political Economy in London Polytechnic centres has defined "direct taxes" to be those levied on the individual intended to bear them; "indirect taxes," those levied on producers, importers of commodities, and others, as in the case of sales intended to be recovered ultimately from consumers. As far as direct taxes are concerned this definition is not exactly correct, such taxes often being recovered from others, whether intended or not to be so recovered—income tax and certain rates, for example.

The element of time, noticed by De Parieu, will be found the great distinguishing feature between the two bases, questions respecting nominal lists, or primary or ultimate incidence, being really of slight moment in the assessment of taxes. Writers, in contrasting indirect with direct taxation, have usually lost sight of the importance of this time element in proportional assessment; even De Parieu seems to have scarcely grasped its full significance as an equitable factor.

In indirect taxes, the time element theoretically should extend from the date of import or of tax payment to the several dates on which all the portions of a taxed commodity or object are consumed, and their material value extinguished. There cannot, of course, be any official means of ascertaining these latter dates, and it is in this lack of any time proportion measurement in indirect taxes that their great inferiority to direct taxes chiefly consists, and owing to which defect the extreme and unequal severity with which they strike quickly consumable articles has so long remained but half realised.

As examples of its inequitable action I will contrast the

¹ "Essai sur la Science des Finances," p. 71. Paris, 1840.

taxation of Tea, Rum, and Tobacco in the United Kingdom, with that of property in the more permanent forms of Lands and Houses.

Tea.—In March 1897, the tax on tea was 4d. per lb. We will suppose an employer of labour pays 37s. 4d. tax on a cwt. chest of it for the use of his workpeople, its declared value being £5, 12s.; the tax therefore is $33\frac{1}{3}\%$ —one-third of its value. Introduce the element of time, and consider the tax paid for the State's protection of the tea up to the date of its final consumption, like taxes assessed year after year on land and houses. Owing to the rapid daily consumption of the taxed tea, and its decreasing quantity and value needing State protection, the proportion of time during which the *whole* value was protected by the State will probably be equivalent, say, to one-fifth of the year; the true tax rate paid, therefore, on the consumed hundred-weight will have been nearly 166% *per annum*, or more than $1\frac{1}{2}$ times the value of the tea, a most severe tax, compared with that imposed on lands or houses.

Rum.—In March 1894 Rum was taxed 130d. per gallon, its average declared value was, say, 20d., being thus taxed $6\frac{1}{2}$ times its value on entering into consumption. Introducing the time element, and taking the tax as originally paid for State protection of the spirit till consumed (like house tax is paid for a house), it is clear its daily consumption reduces the quantity and value needing State protection, which should be allowed for in estimating the true tax rate on the whole original quantity. As the quantity and value of the spirit protected *decrease* with daily consumption, the tax rate (paid for the whole quantity till consumed) virtually *increases* in proportion.

If the gradual consumption of the spirit reduces the time of State protection of the whole quantity, say one-half, the tax rate paid for that half-year's protection amounts to 1280% , *per annum*, or nearly 13 times the value of the spirit!

Tobacco.—Taking the present tax per pound of un-manufactured tobacco as 3s. 2d., its average value as 7d. per lb., and the time of its State protection up to its entire consumption as one-third of a year (as before explained), its true taxation would be 1629% *per annum*, or $16\frac{1}{4}$ times its value!

There would be no force, of course, in the argument, that if

the tea, rum, and tobacco had not been consumed their tax rates would not have increased, for their use necessarily lies in their consumption.

The indirect taxation of Beer, with its quick consumption, would have best illustrated this subject, but it is difficult to get reliable facts as to the average true cost of sound beers delivered from the breweries; I believe, however, the tax percentage must almost equal that on spirits, owing to its more rapid consumption affecting the time element, and so virtually increasing its tax assessment. There are many distinct evidences, however, that the sale of beer is a very lucrative business.

Whatever may be the combined average State and local government tax rate on the *rental* of land and house property, whether 4, 5, 6, or 7% per annum, it is simply insignificant compared with the tax rates on quickly perishable and consumable commodities. House property, no doubt, entails on its owners considerable expense for maintenance, agency, rates, etc., which liability tends to lower its normal value or price, but consumable goods also entail expenses on their owners up to the time of their sale, consumption, or destruction, etc., by their holders, and often after sale.

Looking at the true incidence of imperial taxes and local rates on owners of land and house property, but excluding their taxation by death duties, which affect all descriptions of wealth in their peculiar fashion, I am strongly inclined to believe that *lands and houses are, but in few cases, taxed at a higher rate than 10s. (one half) % per annum on their true exchangeable value*; and even adding death duties, their rate of taxation, as far as owners are concerned, must be very moderate indeed compared with that of quickly consumable goods, for death duties are exceptional or incidental taxes on the few, not annual taxes on the entire community; and further, much of the expenditure from local rates and State taxation tends to improve the value of land and house property, enabling owners to raise their rentals for renewed or new leases, and, so far as improving properties are concerned, to become more independent of increased tax and rate incidence. No doubt much more value in the form of goods and movables escapes taxation than that represented by land and houses, but this is no argument

for taxing quickly perishable goods at such excessively high rates, but merely denotes improper legislation in excluding so many equitably taxable objects from the general scheme of taxation.

Mr Fawcett has remarked: "Writers on taxation usually make a comparison of the two different systems of direct and indirect taxation, and attempt to balance the advantages and disadvantages of each. We think, however, that it is impossible fairly to make such a comparison, and the attempt may possibly lead to mischievous results; for if it can be shown that direct taxation is more in accordance with Adam Smith's four rules than indirect taxation, the proposition is at once propounded that the whole revenue of the State ought to be raised by direct taxation. Both systems are accompanied by certain defects and inequalities which can only partially be remedied. It is impossible to decide with certainty whether a defect belonging to a direct tax is comparatively of greater moment than a defect inseparably connected with a tax on a commodity."¹ He then compares the British Income tax—a notably unfair direct tax—with a tax on Tea, showing the difficulty of comparison, and arguing, that if a very considerable proportion of the revenue were raised by one of these two methods, the inequality of taxation would be greatly increased.

With great respect for his opinion, that of a statesman besides an economist, I would suggest that enquiry to elicit the truth of the matter should surely rather do good than harm, for it might discover a method by which the advantages of both systems could be secured, and their evils and objections avoided; and further, if, as he argued, the particular defects of each tax method could not be fairly balanced against each other *in detail*, still less could they be fairly balanced *en masse*, "by a general process of compensation applied to the whole revenue," as he indicated,² for under our methods injustices abound both in the levy of taxes and their application.

Dr John Gray (LL.D.), referring in 1802 to the large revenue then raised by means of indirect taxes, observed: "The present

¹ "Manual of Political Economy," p. 567. Lond. 1876.

² See his "Manual," pp. 550, 526.

plan of furnishing public supply dates its origin from that most unconstitutional Act 12, Charles II., for abolishing feudal tenures; the abolition, no doubt, was needed, but there was no reason for substituting an Excise on beer and ale, substituting indirect for direct taxation—a *total inadvertence from the true principle of taxation, the abandonment of which in the science of Politics is like the rejection of the mariner's compass in the science of Navigation.*¹

“To obtain any tax without in the end obtaining it from the national income is impossible. . . . Since, therefore, all taxes must be drawn from the national income, it is a point of great economy with the possessors of that income to pay these directly, rather than circuitously, and likewise with the Exchequer, as receiver, to receive them without the intervention of twenty middlemen; merchandise having to go through twenty turn-pikes, over twenty ferries, comes dear to buyers of it. A circuitous road impairs the value of cattle driven to market.”² In other words, the more direct and simple the basis the better.

Referring to direct and indirect taxation, the late George Holloway observed: “Nations adopt one or other, or both combined, but in any case it is the accumulated wealth of a nation that is the source from which they are finally derived.”³ Direct taxation was the oldest and first mode of collecting revenue. This first method was introduced instinctively, without any attempt to disguise its effects; the latter (indirect) is an invention of civilised communities, through which they intend to fasten the tax upon those who would not willingly be charged with it directly. By its operation nations attempt to place their burdens on other nations and individuals, and flatter themselves they are imposing the liabilities on others' shoulders. These are delusions that have been foisted upon man in that state of

¹ This passage is italicised to mark its constructive connection with certain tax principles I shall presently advance. See *Canons and Maxims*, pp. 219–69, etc.

² “The Income Tax Scrutinised,” pp. 60–61. Lond. 1802.

³ This seems a more accurately expressed statement than Dr Gray's just quoted, that “all taxes are drawn from the national income”; but the two are not really at variance, for accumulated wealth is but the excess of national production over national expense, of profits over losses, extending, it may be, over many centuries.

civilisation, when intellect is only visible through the ignorant cunning of individuals," etc.¹

Bearing directly on this point are some passages of a letter addressed by M. Dupont de Nemours to M. J. B. Say (the economist) in 1815; they run: "Is it possible, my dear friend, that you agree with those who maintain that indirect taxation has the advantage of deceiving the people, inasmuch as it is included in the price of the articles which they purchase? 'Twas thus that the Farmers-General and even the Comptrollers-General of the taxes spoke. But what sort of advice is this for a philosopher to give to kings—'Make dupes of your people that you may the more easily get hold of their money'—argument worthy of courtiers and officials." ²

Pollard Urquhart, referring to this indirect method, remarked: "Attempts at deception always re-act upon the deceiver. . . . The more a man feels he is mulcted, the more likely he is to take heed that the proceeds are spent wisely." And he observes of indirect taxes: "They will in the long run take much more out of the pockets of the proprietors than they place at the disposal of the fiscal board. . . . They impede industry, unnecessarily interfere with the liberty of the subject, and, therefore, positively retard a more active development of the faculties."³ And, afterwards, he quotes Professor F. W. Newman's view of the subject: "'The most important distinction in taxes seems to be taxes which hinder industry, and taxes which do not hinder industry. All other distinctions are secondary to this. A tax is not mischievous for what it orders to be paid, so much as what it hinders from being produced.' Herein are comprised my grand objections against indirect taxes."⁴

Fawcett, noticing the disregard of economic method which indirect taxation induces, remarked: "A more serious defect cannot belong to any tax than that it should take from the

¹ "Civilisation, Taxation, and Representation," pp. 97-98. Lond. 1867.

² Letter dated 13th April 1815, quoted in "Financial Reform Association Tract," June 1882.

³ "Dialogues on Taxation," pp. 18-19. Aberdeen, 1867. *Idem*, p. 56.

⁴ "Dialogues on Taxation," p. 64, quoting from Newman's "Lectures on Political Economy" (1851).

tax-payers an amount which greatly exceeds that which it yields to the revenue. This defect to a greater or less degree accompanies all indirect taxation.”¹

A Mr William Gibson, who seems to have carefully studied this subject, explains this want of economy in method thus: “By direct taxation we take what is required by the State, and that only. By indirect taxation we take a much larger sum in the shape of profits upon capital advanced to pay duties, and, heavy additional expenses incurred in their collection.”²

Another distinct objection to the indirect taxation of goods is found in the tax rates being almost universally fixed without regard to the relative value of the articles taxed; however differing in quality and value, they are taxed at like rates for uniformity's sake, and to avoid the difficult task of discriminating values. As the worst example of injustice thus caused, I take the tax rate on unmanufactured common tobacco, worth 2d per lb. in bond, which is taxed 3s. 2d. per lb. like good prepared tobacco at 6s. 4d. per lb.; the *ad valorem* taxation of the poor man's tobacco (nearly in the raw material stage) thus being thirty-eight times heavier than that of the rich man's fully manufactured tobacco!

Cliffe-Leslie summed up certain of the economic disadvantages of indirect taxation, in the form of Customs Duties as follows: “It involves the State in a series of dilemmas with only a choice of great evils. It must either grant unrestricted liberty of importation and exportation to every spot on the coast, and along the rivers of the kingdom, thereby entailing an enormous army of tax collectors and intolerable cost of collection, or, it must limit direct foreign trade to selected places, thereby disturbing the natural order of things, and obstructing the development of numerous localities. It must either exact immediate payment of the duties on importation, thereby wasting capital, harassing merchants, and mulcting customers, or, it must establish the system of bonding, and encounter a fresh dilemma, between covering the kingdom with warehouses

¹ “Manual” (1876), p. 554.

² *Trans. Social Science* (1877). Paper on “The Valuation of Property for the purpose of Assessment to Imperial and Local Taxation,” etc.

and customs officials, or unfairly confining the advantages of bonding to particular places," etc.¹ He particularly noticed, also, how these duties operated in limiting the field for labour and production.

If one investigates the nature of another great branch of indirect taxes—the Excise Duties—it will be seen that very similar objections in reference to principle and practice must arise with them, and in some respects be aggravated.²

Mr John Noble, after quoting Sir Robert Peel's opinion on the matter, "All indirect taxation has a natural tendency to produce injustice," continued: "*The Economist* has lately admitted the same, showing that Customs and Excise Duties taxing the peculiar enjoyments of the rich have been entirely repealed, and the whole of our indirect taxes are now levied upon articles of which by far the larger proportion is consumed by the poor. There can be no more difficulty in securing the requisites of certainty in the amount of payment, convenience in the time of payment, and an equitable contribution from every class, in direct than in indirect taxation. These ends are all secured without any serious difficulties in the payment of rent, premiums of insurance, and contributions to provident associations, and there is nothing peculiar in taxation which should make it an exception.

"Our principal complaint is not so much that these taxes are unjust, as impolitic, not that they press unduly upon any one class, but that they seriously injure all, diminishing the employment and lessening the resources of the entire community. The real problem is, How to raise the necessary revenue in a mode that shall interfere as little as possible with the productive power of the community. This, we maintain, can only be done by the adoption of direct taxation, and its consequence—perfect free trade."³

A note concerning the cost of collecting Customs Duties in the United States, omitted when publishing "The British Tax-payers' Wrongs," may be here introduced.

¹ "Cobden Club Essays" (1871), p. 213. He describes many other dilemmas also.

² See "The British Tax-payers' Wrongs," pp. 23-30, describing such objections.

³ *Trans. Social Science* (1864), p. 643. Paper on Taxation (Noble).

The Hon. Amasa Walker has shown that the United States Government, in 1858, only got 35 % of the taxation paid by consumers of Sugar ; that the Customs collection system was so expensive that its cost in 1864 caused 50 % extra taxation to the people above the gross revenue, that is, \$100,000,000 of revenue cost the people of the United States \$151,800,000.¹

This statesman, in a speech in Congress (15th January, 1863), referring to the question of direct and indirect taxation, *and the British fiscal system in respect thereof*, said: "The public burdens are thrown upon labour. The revenue is mostly raised by taxes imposed on articles consumed by the productive classes. Capital, to a most unjust extent, shirks its proper and just proportion of the general taxation, and hence it follows, that what a large land-holder or rich capitalist saves, the Manchester or Birmingham operative must make up." How true this is will be shown when I deal with "Tax Principles," especially Canon 3, pp. 228, etc.

De Parieu, comparing direct with indirect taxation, observed: "The legislator affects, by direct taxation, the relatively fixed normal condition of persons possessing or enjoying wealth; by indirect taxation, certain accidental elements attending the circulation of goods (wealth) or the lives of individuals. Taxes on wealth, taken as a whole, appear more legitimate, more just, more universal in their action, than taxes on the various accidental circumstances affected by indirect taxation."²

Like other writers, he notices the fact that indirect taxes are *not so easily perceived by tax-payers*, which some economists consider a somewhat doubtful advantage with a corresponding drawback, whilst others, regarding taxation and its principles from a constitutional point of view (not that of mere expediency), consider this so-called advantage a distinct evil, the higher industrial, wage-paid classes losing much of that wholesome personal interest they once took in economic public administration, imperial and local, when directly taxed for its cost.

¹ "Science of Wealth," pp. 315-17. Boston, U.S., 1866.

² "Traité des Impôts," pp. 118-19, etc.

Mr Gladstone, addressing the Political Economy Society of Paris, on 7th February 1864, freely admitted the soundness of the principle of direct taxation, but pleaded the difficulties of the statesman for its not being carried out more completely in legislation. These difficulties may, I think, be traced to improper application of the principle, the true method having been abandoned and perhaps forgotten.

M. Turgot gave many practical reasons for preferring *direct* to *indirect* taxation as a basis, viz.: "Because direct taxes were levied more economically, and so the land-owners (who, he believed, ultimately paid all taxes) saved the expense of collection, including the profits of revenue surveyors, managers, and tax-farmers; because indirect taxation put so many restrictions on commerce, caused so many legal processes, frauds, and confiscations; the loss of the services of a great number of men engaged in protecting this revenue; a warfare between government and its subjects; disproportionate penalties attached to certain acts; a constant and almost irresistible temptation to fraud, which, nevertheless, was subjected to the most cruel penalties, etc."¹

I venture to quote the authority of *The Times* newspaper in support of direct taxation, seeing that social philosophers and statesmen of distinction have more than once noticed that, of the daily British Press, it is edited with most regard to the principles of political economy.²

The Times, of 9th November 1859, observed: "What, then, is required in order to give effect to a principle, containing in itself so many advantages?" (Direct taxation.) "All that is wanted is some contrivance, by which the burden of taxation may be gradually transferred from labour to property. We have often heard that such a thing is an impossibility, but we have of late years become accustomed to overcome impossibilities, and the word has lost its terror."

Again, in reference to indirect taxation (more particularly

¹ "Sur la Formation et Distribution des Richesses" (1793). Translations (1859 and 1871) in England. See also quotations in "Financial Reform Association Tract" of June 1882.

² For example, see *British Economic Association Proceedings*, London, 27th June 1894.

Excise regulations), it wrote on 5th July 1860: "It requires no lengthened explanation to make it manifest that when we subject a man's business to the direct supervision of the State, and when we make him carry on that business under special conditions, the object of which is to facilitate supervision, and to prevent evasion, we put that man to a considerably greater expense than the mere money which he pays us. Every man of common sense must see this at once." The first quotation is from an article on Indian finance, but it represents generally the fiscal policy of *The Times* for the last fifty years.

The only at all substantial argument in favour of indirect taxation is, that tax-payers can thus pay their taxes at their own discretion and convenience—that is, when making their purchases. Observing, in passing, that this argument is not quite in harmony with another advantage claimed—that people do not know when they are being taxed indirectly—I would remark, that the manual labour classes are the great consumers of the articles subjected in this country to the heaviest indirect taxation, viz. Tobacco, Spirits, Beer, and Tea, and that their consumption more assumes the form of a daily need than of a matter of discretion or luxury; questions, then, as to the convenience of incurring such expense (and taxation) are rather out of place, and can scarcely be said at all to influence these classes; the consumption is really in their case, to a large extent, a necessity. Their chief consideration should, of course, be the great severity of the tax rates imposed on these special articles.

But direct taxation applied impartially and *pro rata* to all exchangeable articles of value offers exactly the same advantages as to time and convenience of incurring expense and taxation as those claimed for indirect taxation, with the added practical advantage of a very moderate tax rate on such expenditure.

Lauderdale, referring to the argument that assessed taxes serve as proofs of superlucration expenditure, wrote: "I deny assessed taxes can be deemed any criterion of real expenditure. Sir W. Petty's remarks as to a house are applicable to most of the articles on which assessed taxes are imposed. 'A house is of a double nature, viz. *one* wherein it is a way and means of expense; *the other*, as it is an instrument and tool for gain.'"

Lauderdale instances his printer's house as a necessary expense, also the shops of tradesmen, the carriage of a physician, the horse of a pedlar, a butcher, a country apothecary, attorney, a merchant—above all, the houses of farmers. He proceeds: "Nor do I think it possible that any man can deem expenditure a criterion of income; how many, in entering various professions, are compelled to an expenditure inconsistent with their income; how many with large families are forced to expend more than they can afford; how many, who are covetous or prodigal, drop all consideration of income in regard to their expenditure; how few display throughout life a regular steady regard to the due proportion between income and expenditure."¹ Thus refuting the fallacies involved in Pitt's defence of his new Income Tax, he proceeded to show that income, like consumption and expenditure, is an improper basis for taxation, and presently, in considering income as a tax basis, I shall revert to his remarks.

The inconvenience and waste of time and money caused by property transfers, and other business actions, instruments, etc., serving as indirect tax bases, have been fully shown in §§ 37, 38, 39, etc.

§ 94.—Human Power, Capacity, Ability, Faculty

THIS basis needs analysis. General F. A. Walker has defined the term "faculty" as "the natural and acquired productive powers of individuals," and has pronounced it to be, theoretically, the most strictly equitable and natural basis of taxation, though he admits it is an impracticable one.² Hermann and other German economists have drawn a distinction between a man's "internal goods," *i.e.* whatever each of us finds in himself the free gift of Nature, also that which we develop in ourselves by our own free action (or will)—and his "external goods," *i.e.* whatever we create or obtain through the external world as a means of satisfying our wants."³

¹ "New Plan for Collecting a Large Part of the Public Revenue." Pamphlet, 27th Dec. 1797, p. 25.

² See his "Political Economy," p. 447. Lond. 1883.

³ "Staatswirthschaftliche Untersuchungen" (1870), quoted by Professor A. Marshall in his "Elements of Economics of Industry" (1892).

H. F. Von Storch, another philosophic economist, has described as "internal goods"—health, knowledge, security, leisure, etc. It may well be asked—How can any government fiscal department, whatever its staff and machinery, practically assess the value of a person's health, knowledge, security, leisure, energy, wealth-producing, public-benefit-yielding, etc., power or capacity, as compared with those of another person, and what possible standard or standards thereof can be set up as bases?

Poll taxes have been imposed from time to time in most countries, some drawing distinctions in tax rate for differences in social position, number of family, etc., others being partly based on the amount of wealth or income of the tax subjects, and such distinctions have ever proved fertile causes of contention, often resulting in rebellion or riot. So unpopular have personal tax bases ever proved, that they are invariably abandoned as impracticable and impolitic. As Montesquieu has remarked: "A poll tax is natural to servitude; a tax on commodities is more natural to freedom, because it has less direct relation to the person."¹

Respecting recourse to poll taxes, M. H. Passy has observed: "It presumes that persons without taxable property do not pay any tax, which is not the case, for they pay it in the price of lodgings, etc., and things which are taxed,"² that is, through the processes of tax incidence, repercussion, and diffusion.

Another strong argument against personal tax bases is, that taxes are thus levied on one of the two great natural elements—labour and land—"the father and the mother of the (exchangeable) wealth of the world," as economists have termed them.

To directly tax personal powers, ability, qualifications, etc., seems opposed to the economy of nature and all true policy, as I have argued in my remarks on "Labour and its Interests," and on the "Sharing of Wealth and Value."³ All interferences with the natural co-operation of these great elements, Labour and Natural Wealth (Land, etc.), must plainly be wrong, and this

¹ "De l'Esprit des Lois." Genève, 1748.

² "Dictionnaire de l'Économie Politique," p. 901. Paris, 1852.

³ *Ante*, pp. 81, 87, etc.

personal taxation so acts. The interests of a State largely depend on the orderly, peaceful, and thoroughly economic development of such co-operation.

Regarding the other form of personal taxation—taxation in kind, now chiefly seen in compulsory service in the army or navy—it can but be viewed as a barbarous expedient, justifiable only on the plea of absolute political necessity, protection against threatened invasion, etc. This tax method disregards all sense of justice, there being often extremely urgent circumstances obliging men to adopt civil life and better paid employment in preference to a military career.

Economically viewed, this personal form of taxation is highly injurious to the general interests of a community, many being forced into callings for which they are neither physically nor mentally adapted, and thwarted from entering occupations suitable to their natural inclinations and abilities. However well organised a conscription system may be, these economic objections must ever be powerfully felt, combined always with others, political, moral, and social, which I need not refer to. It is the militarism fostered by this system that is draining off so much productive power, for governments are interfering with the natural flow of labour, and diverting it to less productive purposes. No wonder there is so much discontent in, and active emigration from, the Continental nations adopting this personal basis for taxation.

So many are the inconveniences attending other forms of personal service contribution that they are gradually being discarded in civilised countries, and some day we may see all British jurymen properly paid for their services, witnesses treated with more consideration, and other forms of public service rewarded, if not by money, at least by some kind of distinction or privilege.

§ 95.—Other Natural Wealth, Land, Mines, etc., as Tax Bases.

LAND, water, mines, and other elements of Nature producing values when in co-operation with labour and capital, have, as wealth sources, always served as tax bases. In new colonies

they usually form the chief tax bases, as most of the available circulating capital and earnings of labour are quickly absorbed in the land, etc., as fixed capital.

The development of Land Taxation in a country much depends on the circumstances attending its first acquisition. Sometimes the land, with its accessories, is sold outright to the settlers by the governing power, without conditions as to taxation, mining-rights, valuation, liability to clear holdings, actual occupation, etc., distinctly uneconomic methods, whatever the attendant conditions, and whatever the appropriation of the purchase moneys obtained; sometimes, indeed, land has simply been given away. More generally the land has been leased for longer or shorter terms of years, usually with conditions of tenure like the above, often including a periodical revision of the rental payable to the Government land office. This last is beyond doubt the most economic and equitable arrangement for securing the rights of future as well as present generations over this rightly inalienable form of wealth, and for arriving at its true and proper use-rental, or value, for continuous occupation, provided first leases are granted at fixed moderate rentals, and the tenure given is long enough to attract capital and labour successfully to exploit the land. The principle of continuous occupation, or security of tenure, is not one to be lightly interfered with. Before change of tenure could be enforced, the land authority should possess ample and decisive proof that the common interests of the local community were suffering injury from a tenancy.

Land Taxation, as distinguished from this Economic State Rental, has been much developed as a principle in France, and there is a consensus of opinion there, among economists, that periodical revaluation of the land is a necessary condition for its equitable assessment. Messieurs De Parieu, De Courcelle-Seneuil, H. Passy, H. Block, A. Clement, Leroy-Beaulieu, and Yves Guyot, may all be cited as taking this view, and that, if taxed, the value of land is the true basis for its taxation.

M. H. Passy observed: "As long as they are not assessed corruptly, and fall directly on the net revenue of farming industries, and have as their basis, as in France, the natural qualities, and the area of the soil, these taxes, payable according

to the ratio of the advantages arising from the appropriation of the soil, answer all the requirements of proportionality" (in a tax).¹ M. de Parieu strongly insisted on the justice of assessing private pleasure-grounds at their growing values, as well as income-yielding lands.

To preserve equity in this taxation, the owner's assessment, during his tenant's lease, is not increased by estimated values arising from his tenant's improvements and increased profits, for, such improvements, if still yielding extra profits, properly constitute a claim on the land-owner at the close of the tenancy, unless otherwise arranged in the lease.

Ordinarily, little difficulty is found by valuers in distinguishing between landlords' and tenants' capital, but when distinction has to be made between a landlord's land, and a tenant's capital and labour sunk in it, a more complex problem is presented, though experts, knowing the local value of land, and furnished with the particulars (time and nature) of such investments, can discriminate between the value of the land itself, and the present value of the capital sunk in it.

When noticing "Income" as a tax basis, I shall refer to economic and ordinary rentals, but may here remark that, whatever the basis for taxing land *simply as land*, it may be most unfairly taxed unless the tax corresponds with the economic cost of Government services thereon, for, naturally enough, it needs but little State expense compared with other forms of material wealth, and such expense should be the chief regulating and limiting element as regards its general taxation, and as far as practicable, its local and individual taxation, for Land, with the other natural forces, is the ultimate raw material necessary for supporting industrial enterprises.

Another point must be noticed respecting Land as a tax basis.

Land which has practically become the absolute property of its holders, with scarcely any State or local government control over its exclusive use, free disposal, pecuniary profit, and other advantages derivable, is naturally able to contribute towards the public charges in larger ratio than land more directly

¹ "Dictionnaire de l'Économie Politique," p. 901, cols. 1-2. Paris, 1852.

under public control, and applied more or less to public uses, such as public parks, canals, railways, and other enterprises, more or less under the purview of the governing powers, and involving public outlay from central and local Government funds to secure their fair, free, and continuous use and enjoyment by the community.

Railways and other collective or individual profit-earning enterprises largely concerned with land or other forms of natural wealth have usually duties and liabilities to the general community imposed on them, involving much expense, which has to be taken into account in *their* assessment.

The more absolute and exclusive the rights and privileges of holders of land in respect of its use, sale, etc., the more its exchange and use-values naturally tend to increase, and the more able is it to bear taxation; and, being so far outside the influence of State and local Government control, such holders cannot with justice claim that their land should be only taxed according to the public cost it entails, for it is, in most respects, the same as other freely exchangeable wealth, but enjoys particular facilities of becoming a monopoly by land-owners combining to withhold land, and raise their terms for the use of this raw material, especially in countries with rapidly growing populations and with limited land area.

The Government services required for the control of Land and other natural wealth are land-offices, commissions, courts, land inspection, surveys, and valuations, ordnance surveys, maps, plans, etc., the expenses for which can be localised to a large extent, and even individualised. Expenses for preserving national monuments (isolated ruins), etc., also are proper charges on Land taxes or on State rentals as public revenues.

§ 96.—Income or Revenue generally, as a Tax Basis

INCOME is usually viewed and practically treated as material wealth coming into possession or ownership, or accumulating as credit to be realised later on as material wealth. More closely examined it will be found to include immaterial receipts also, incoming values mostly insusceptible of measurement by

ordinary methods, but none the less valuable income, and justly assessable as such, if income is held to be an equitable tax basis.

Writers on Economics have often advocated income as a tax basis, but statesmen and fiscal administrators less frequently, for they, of course, sooner encounter the many grave obstacles attending its assessment. There are indeed economists, like Sismondi, Lorenz von Stein, Held, Meyer, J. Kaizl, and even Professor Bastable, who contend that income is the ideal basis for just taxation, the matter being regarded by them apparently from the aspect of income's normal liabilities—from the financial point of view.¹ Thus it appears natural that incomes providing for ordinary social needs should provide for the need of Government services also, and in normal cases they generally do so; but we must also consider *extraordinary* demands for private and public emergencies, when incomes are insufficient to meet social and business claims and war taxes, and people are compelled to resort to their stored-up income, or wealth, to satisfy such claims; then it becomes more apparent that *property, which includes income*, is the real criterion of a subject's or of a nation's financial capacity or solvency, and therefore, that its value represents the ultimate, as it is the justest and widest basis for the assessment of his or its taxation. To say that a man's income should, under ordinary circumstances, pay for Government as for other services rendered in a year, is a very different proposition to saying that his annual income, or the average of several years of such income, is a just basis on which to tax him for protecting all his property for a year. It is not a man's annual incoming wealth only, but his entire wealth that is protected by Government; his tax assessment then should be based on his whole possessions, not on a part only—the fruits or income yielded by his industry, capital, etc., *in one year only*.

¹ See "Principes d'Économie Politique," "Lehrbuch der Finanzwissenschaft," "Public Finance," etc. Bastable, however, admits that, "Taxation is drawn from the total stock of wealth, including at any given time both capital and revenue. The real aim should be to so direct it as to interfere to the smallest extent with the action of the forces, that promote accumulation" (p. 275, 2nd edit. (1895), of his "Public Finance").

Sir John Stewart, the economist, certainly laid it down as an axiom, that, "Taxes ought to affect the fruits not the funds"; but what are funds but fruits stored up for use, the results of forbearance or temperance and economy, the residue left after providing for the needs of its owners, and requiring Government services for its protection quite as much as the incoming portion does, if not more.

Income, besides being a much narrower basis than wealth (which includes all *material* incomes and expenditures), is at the same time a much more unsteady and changeable basis, more liable to partial and total cessation. A man's own health, that of his family, his death, the death or failure of his employer, and countless other changes and chances affect the stability of his income much more than they do that of his material wealth.

In my analysis of incomes (§ 34, etc.) their different ability to bear taxation was noticed; I now must point out some of the practical difficulties attending all schemes for establishing income as a tax basis.

First comes the question: What is real income as distinguished from capital advanced to a person, and from mere repayments of his own advances, or those of others on his behalf? In such repayments, capital and income are often merged together, as in annuities received, also in wages, pay, fees, profits, and other returns for personal and material services rendered involving outlay of personal and material capital. British fiscal administration, however, permits no deductions on this account under any of the Income Tax schedules.

Closely akin to the preceding is the question: Is gross or net income the proper tax basis? Some economists contend that Government services being a necessary of life, like food, clothing, shelter, etc., their cost should be a charge on gross incomes; others argue that expenses incurred for the direct purpose of earning incomes should be deducted from incomes before taxing them; while others again urge, not without reason, that subsistence, and like needful outlays, being part of the cost of earning an income, should also come off the assessment. This last claim may clearly be further pressed so as to include the needful maintenance of the earner's family as well, and it would be difficult to draw any line of distinction

between what was, and what was not, "necessary and reasonable expense." These questions disclose the imperfect nature both of income and expenditure as tax bases.

As regards the British Income Tax regulations, some small deductions from the rate on gross incomes earned by labour *are* allowed—for instance, premiums paid for life insurance, which the late Right Hon. Sir James Wilson, when Secretary of the Treasury, pronounced to be a "most partial" (inadequate) remedy for the unequal pressure of the tax.¹ Practically this abatement is allowed (with certain limitations) under Schedules A and B, and under all the five schedules of the Act to income tax-payers under Schedules D and E. But, as before said, all claims for deductions for returns of capital outlay are rejected, as well as claims for the subsistence of income earners.

The exemption of incomes of £160 and under, so far as it operates, of course reduces the scope of injurious tax incidence on incomes generally, and all modern nations taxing incomes have adopted some exemption minimum, experience having shown that the tax cannot prudently be enforced on small incomes, as it would greatly increase the cost of collection and provoke general opposition. The statistics of Income Assessments clearly show how largely these exemptions reduce the number of tax-payers, and the amount of income taxed.

Further narrowing this tax basis are the numerous incomes "in kind" escaping assessment, such as house and lodging accommodation, use of garden, etc., ground, subsistence, education, clothing, medicines, and medical attention, washing, coals, lights, etc., and perquisites of various kinds, especially in domestic service, and numerous and important in reproductive occupations, agricultural, mining, etc., all reducing the earners' expenses, and operating as extra incomes, but mostly escaping official assessment owing to the trouble and cost of tracing them in private incomes.

Then come the numerous and multiform incomes arising from

¹ See Mr J. G. Hubbard's letter of 15th August 1861 to John Stuart Mill commenting on Treasury Memorandum of 12th March 1853 touching projected Income Tax reforms. Royal Stat. Soc. Library Pamphlets.

growth of value in land, capital, live stock, and other wealth objects animate and inanimate, in both forms largely escaping assessment, though increasing their owner's tax ability, and often deriving much of their added value from the outlay of taxes and rates on them.

It is not surprising, therefore, that certain property owners argue, that property yielding no present (*apparent*) income should therefore go untaxed. The silently accruing value of land, wine, and many other possessions is distinctly true income, whether realised or not by owners, and by business men it is accounted for sooner or later as profit, but these values mostly escape assessment.

Under our fiscal system, incomes often in other ways escape taxation—for instance, certain premiums and fines for leases and renewed leases; the surrender values of fixtures, added buildings, and forfeited property often go untaxed as income; also, property passing after death, which, though in many cases otherwise specially taxed, is all the same distinctly income, though non-recurring income.

Next comes the multitude of immaterial "enjoyment incomes," as some writers have termed them, which the German economists, Hermann and Cohn more particularly, have shown to be real incomes, though incapable of practical measurement; these seem to all intents and purposes equitably chargeable with taxation, if income is held to be the true tax basis. Of this kind are the satisfaction and enjoyments derived from investments in mansions, picture galleries, yachts, parks, etc., and other enjoyment-yielding sources, naturally enough coming in more scant measure to the poorer classes. Such enjoyment incomes generally spring from superlucration expenditures, though sometimes they are the outcome of Government and local government expenditure, intended for the enjoyment of all.

From insufficient vigilance of fiscal officers, or from concealment of incomes, often possible with such an irregular, unstable basis, derived from so many unseen and unsuspected sources, especially incomes derived from other countries, colonial or foreign, multitudes of revenues must escape assessment; and further, the Income Tax rules and rates, however strictly framed originally, soon have to be relaxed in some respects, and re-

ductions and abatements from the full tax rate have to be conceded to certain tax-payers, able to prove more readily than others the unjust incidence of the tax on their incomes, thus again reducing its net product. It can now be seen how circumscribed the basis of any income tax tends to become as regards the number of contributors, and the total income taxed, and this means that a heavy tax rate on the remaining taxable incomes must be imposed to make good the loss from such wholesale exemptions and abatements, most of which seem inevitable.¹ From these causes the British Income Tax has gradually assumed the character of a "class tax."

With the comparatively small basis left for taxing incomes there is yet room for much injustice in assessing them, for they are very differently able to bear taxation. Modern inventions, industrial partnerships, and other causes tend to blend these incomes together, though so different in tax ability, making it quite impossible for the fiscal powers to discriminate between them in assessment. This has been partly shown in my analysis of incomes (§ 34, etc.), and accounts for the many failures in attempts to determine the true incidence of taxation.

Respecting Income bases generally, and their ability to bear taxation, I will here quote two authorities only.

Lord Lauderdale wrote: "It is most ridiculous to consider Income as a criterion of capital. The income of no professional man is worth anything like the value of an annuity during his life. The profits of trade acquired by a merchant bear a very different proportion to his capital from what the rent of a landed gentleman does to the value of his estate. The dividend of a property in the funds indicates a capital much smaller than what is possessed either by the mortgag^{ee}, or the landholder who has an equal receipt. This new plan" (Pitt's Income Tax) "presumes that the widow with a jointure of £1000 per annum, perhaps not worth £2000, has a property equal to that of a man of £1000 per annum from landed estate, which is perhaps even now worth £27,000, and it puts the £7000 per annum

¹ M. de Parieu has noticed, as a serious defect, this tendency of some tax bases to shrink from lack of universality in personal incidence, so much impairing the productive power of tax sources. "*Traité des Impôts*," p. 90. Paris, 1866.

that Mr Pitt enjoys as First Lord of the Treasury . . . on the footing of a freehold estate producing the same income, worth probably £180,000. I think these considerations must suffice to convince how imperfect a test of property income must at all times form, but let me observe that there are hardships in adopting income as a criterion for taxing property peculiar to a mercantile country, etc.”¹

And J. Ramsay M'Culloch held it as an axiom that “No tax on income can be a just tax unless it leave individuals in the same relative condition in which it found them.” . . . And again, “We have seen in the first place that it is not possible to acquire any accurate information in regard to the magnitude of the incomes of some large and important classes; and we have next seen, that though such information were obtained, the sources whence different incomes arise are so very various, and so very different in their degrees of durability, that all attempts to subject them to a really equal tax must prove utterly abortive. The truth is, such a tax is a desideratum which is not destined ever to be supplied. After the legislature has done all that it can to make it equal, it will be most unequal. To impose it only on certain classes of incomes, or to impose it on all incomes without regard to their origin, is alike subversive of sound principle.”²

As bases, let us briefly examine the respective ability of the five classes of income to bear taxation.

§ 96.—(1) Wages, Salaries, Pay, Fees, etc.

DR THOROLD ROGERS, in a paper read before the Statistical Society of London,³ remarked: “It is surely just that a tax should be levied on the ‘capacity to spend,’ and not on mere receipts, unless finance is to mean a raid on the weak and unprotected.” . . . And further on: “The incidence of the tax (income) favours landlords, traders, and some fund-holders, and

¹ Pamphlet, “New Plan for . . . Revenue,” pp. 26-27. 27th Dec. 1797.

² M'Culloch's “Treatise on Taxation” (1863). See also p. 619 of his Edition of the “Wealth of Nations”; also quotations in Dr Adolf Held's “Der Einkommensteuer.” Bonn. 1872.

³ “On the Statistical and Fiscal definition of Income”—*Statistical Society's Journal*, pp. 247-57, June 1865.

presses with special severity on the professional classes, especially on such as have only what is called 'precarious' incomes, for, if the proportionate payment of the latter class is in excess, it is clear that a portion of the just burden is transferred from one body of men to another. . . . All men who labour (to acquire income) have two distinct grounds for partial exemption : (1) necessity for replacing capital included in themselves ; (2) limitation put on their spending powers by the obligation of their *locus standi* for carrying on their occupation."

Though not quite clearly expressed, the first ground probably includes the necessity for making provision for the time when the earner's working powers fail or cease. He proceeds : "Neither of these claims are admitted under the Income tax, but the powers 'of partial exemption' can be secured by the agency of a joint stock company." In companies and commercial firms this is always effected, and professional men also, solicitors, doctors, etc., often pay only on net profits by means of partnership and joint accounts. He continues : "It is not, I believe, possible to defend an income tax, either on the grounds of equity or morality ; it is possible to defend a property tax, but the confusion of both being under one title is to confound *motion with rest*."¹ Like expenditure, income is a *moving, unstable basis*. He concludes : "No income tax can approach justice which puts the wages of labour on the same footing as the interest of stock and the rent of land."

M. du Puynode, writing on taxing labour-earned incomes, observed : "Taxation should only be assessed on realised, capitalised, appreciable wealth, and should only appropriate a proportional part of the net product. For wages are but the daily pay for work ; there is nothing in the nature of capital in them ; they refuse, accordingly, all basis for taxation ; they are only a revenue, and the most uncertain of all revenues. In fact, such a tax would be nothing else than a tax on the poor, or, if one wished, in attempting the impossible, to regulate it accordingly to the amount of people's earnings, it would be a most disastrous premium granted in favour of incapacity and idleness."²

¹ My italics.

² "De la Monnaie, du Crédit, et de l'Impôt," vol. ii. p. 254. Paris, 1853.

M. De Parieu wrote: "The tax on income is severe upon incomes from labour, which it confounds with those from capital," etc.¹ Many of these incomes largely represent repayments in the form of interest on accumulated "personal capital," the fruits of years of industry and mental and physical labour, and on "material capital" laid out on education, subsistence, travel, and in obtaining professional and technical knowledge and experience, these incomes being the reward for such exertion, patience, abstinence, and capital outlay, though too frequently enjoyed but for a brief term of the workers' lives. Mr Goulburn, defending Sir Robert Peel's income tax and its incidence on professional incomes, strangely enough used the fact of the high rate of some of these incomes being largely due to the temporary nature of their enjoyment and exercise as an argument for taxing them at the same rate as other incomes, not perceiving that the tax thus operated as a burden not only on present industry, but on past labour spent in acquiring personal capital by self-sacrifice, expense, and forbearance, and without any cost to the State or to society.

Further quotations discrediting this form of income as a tax-basis seem needless.

§ 96.—(2) Profits

THESE incomes represent excess of gains over losses accruing in a given period, but will often be found alternating with net losses, and necessarily so in some occupations of a speculative character, or depending on ample supplies of raw materials and labour, workmen's strikes often causing severe losses. Revenue authorities find it their greatest practical difficulty to arrange any plan, not involving inspection of tax-payers' books and records of profits, losses, etc., by which to assess the tax on an average of income. The rate of profit is but little guide to the value of the capital in businesses, for profit is a compound element, extracted perhaps from all income heads in varying proportions, and constantly changing from year to year.

¹ "Traité des Impôts," p. 11, etc.

High profits may in speculative businesses mean insecurity in their continuance. Certain properties or goods are subject to little taxation ; for example, goods in warehouses, raw materials, etc., in process of production and manufacture, ships and cargoes, retail stocks, bank specie, etc.; whilst owners of others, such as tobacco, cigars, spirits, wines, beer, etc., have to advance large sums for taxes imposed, which compels them to recoup themselves for such advances to secure the usual profits. Accordingly, these last trades tend to become monopolies from the fact that few can command capital enough to carry on the business.

The effect of such unequal taxation is to attract newly-acquired wealth and profits to businesses in which it is lightly taxed; soon it flows in in excessive volume, then the profits therefrom drop, bad trade and losses follow, the tendency of profits to assume the same level asserts itself for a time, till the sharp lesson of experience is forgotten, and a new boom sets in for the acquisition of high profits. The state of the shipping trade a short time back afforded an example of this instability in profits, and it seems obvious that excessive and unequal taxation of stock-in-trade, manufacture, and production is a needless cause, or contributory cause, of irregular profits and financial embarrassment. Many are the influences unceasingly at work affecting profits and losses, and making net income or net profit a most unreliable basis for measuring ability to bear taxation.

§ 96.—(3) Interest

INTEREST being the object of so much hostility among Socialists, or rather Communists—for Socialism should mean normal and healthy doctrine or action for the benefit of society—I must preface my notice of it as a tax-basis by some further remarks on it as “income.” Merely as a means of providing an assured income to failing and exhausted labour, and the more feeble and infirm members of a community, it has a distinct economic value, as explained when considering realised wealth (§ 19).

It also serves a useful purpose in drawing capital to or from

enterprises and objects in proportion to its high or low rate. Without interest there would be less inducement to accumulate capital, and abundant capital means, in industrial matters, high wages and low interest rates;¹ low interest rates again tend to warn capitalists to employ their capital where it is scarcer and better paid, and *no interest* soon means *no capital*. Sufficient interest, therefore, implies sufficient capital, and excessive capital insufficient interest but higher wages.

Interest, then, instead of injuriously affecting labour, has a three-fold beneficial economic action; it keeps up the available stock of capital, giving employment to workers during all the stages of production and trade; it attracts capital from where it is least wanted to where it is most in request; and it provides safe but moderate incomes from investments for failing and disabled labourers, and those needing rest during their closing years.

Interest, like Profit, is a most unsatisfactory basis, or standard, for measuring the true taxability of persons in respect of their wealth. For high interest rates may mean, either excellent secure profits from a business in which money is invested, or urgent demand for the use of money or other wealth objects, with much insecurity as to their ultimate repayment by the borrower, loss of, or injury to the property lent, and sometimes also expenses entailed in recovering it or its value. Has the State or society any just right to share this speculative income regardless of the losses the lender may ultimately sustain on the transaction? If so, the State might for a time obtain a revenue from property yielding income in the form of interest, the tax rate increasing in proportion as the true value of such property falls!

The original capital of annuitants repaid to them with interest, as in the case of life and terms-of-years' annuities, is treated by our fiscal authorities as quite the same as interest, though the annuitants' ability to pay at all, and their wealth needing State protection, are diminishing, in fact, so far as the capital yielding the annuities is concerned, their actual wealth

¹ As Bonamy Price has written: "Everything which makes the employer eager to give good wages is good for the workman, and increased capital does so."—"Practical Political Economy," pp. 198-99. Lond. 1878.

has been parted with for mere claims on the insurance offices owning the wealth on trust to pay such annuities.

The differences in the ability of "interest incomes" to bear taxation may be better understood now, though it is impossible for any fiscal board to practically measure their relative true taxability.

§ 96.—(4) Economic Rent

THIS rent, received in exchange for the exclusive beneficial uses of land and other natural wealth, and of all irrecoverable capital left by occupiers as inseparable from the land, etc., does not appear a more suitable basis for taxation than the incomes just noticed.

British land legislation as yet has provided no method for distinguishing "economic" from "ordinary" rent. Naturally, economic rent rightfully belongs to the entire nation, as income derived from inalienable national property, future generations having similar interests to the present one in its due administration for the public advantage, subject to central and local control in respect of its uses. Hence the rentals received for its exclusive use equitably would be applicable firstly, to defray all costs incurred in its administration and control, and secondly, to maintain and improve its value as national heritage. But by the neglect (to use the mildest term) of past rulers and legislators most of this national wealth has become to all intents and purposes the absolute property of private persons and associations, whose consciences and ultimate interests almost solely control the extent to which they may push their rights of extracting profit from the loan, sale, and exchange of this easily monopolised wealth, or of withholding it altogether from industrial and other purposes if wealthy enough to dispense with the present income.

Accordingly, the land, mines, etc., of private owners are justly amenable to taxation as freely exchangeable property, but the rental paid for its use varies with the conditions of tenure, and often is but a fractional part of its proper taxable capacity, and far from a true index of its value; its exchangeable value is certainly a much more accurate and steady

criterion and basis thereof under a well-organised system of assessment and valuation, in which rental is an important, but not the sole, element of consideration.

Economic Rentals received by *Government* for the use of the national land, etc., are incomes received for the national advantage, and, as such, are not amenable to taxation, being on the same footing as fees received in payment for services rendered by certain public departments. I need not enter on the subject of Crown lands and rentals, and their particular appropriation.

True Economic Rent, as received by *private individuals or associations*, often represents a very inadequate and variable, and therefore an unjust, basis for taxation, affording opportunities for land when underlet to escape rightful assessment to taxation, though its taxable and exchangeable value may be daily increasing. Unless some effective reforms be introduced in our national land system, with its rapidly growing tendency to become a vast and oppressive monopoly, it must before long seriously affect British prices, home trade and foreign, and endanger our position as the leading financial and trading community, though fiscal reforms might for a time delay such decline.

§ 96.—(5) Ordinary Rent

THIS income is really in the nature of interest, in fact, the term Rent is often applied to incomes arising from the loan of other wealth objects than those associated with land; ordinary rent represents interest derived from capital invested or sunk in or on the land or other natural wealth, but from lack of legal measures for separating the two rents, they have become merged, though it is quite within the powers of legislation to distinguish their values when required. The want of distinction puts tenants and would-be tenants at much disadvantage in negotiating for renewed leases and new tenancies, and would-be purchasers also, in regard to sale prices, etc. Wealth invested or sunk in land and other natural elements, the quantity of which man cannot practically increase, tends surely to become a monopoly in the United Kingdom, with its rapidly increasing population, and were

it not for the measure of free trade we enjoy, the prices of all necessaries of life would rise enormously, and terrible distress would result.

Land and capital rentals thus blended together have, unfortunately for the interests of the great majority of the nation, been made by law the basis on which a large proportion of local and some imperial taxation is raised from *occupiers* instead of from land and house *owners*; moreover, the monopoly in land, and capital associated with it, is made more effective by exempting it from almost all taxation on its actual value; land, house, etc., owners are thus able to maintain high prices and rentals for all portions of it in request, and are under but little disadvantage as regards the almost untaxed remainder. Other legal provisions help to preserve this monopoly in land and capital invested in it as I have elsewhere shown; so betwixt the upper mill-stone of public taxation, and the nether mill-stone of private owners' exactions, users of these absolutely necessary forms of wealth suffer serious injustice from an occupation rental tax basis. In other respects the objections to ordinary rent tax bases resemble those raised against interest tax bases, and need not be repeated.

Dr Thorold Rogers has observed:¹ "Every permanent improvement of the soil, every railway and road, every bettering of the general condition of society, every facility given to production, every stimulus applied to consumption—raises rent! The land-owner sleeps but thrives!" He added, however, that the land-owner "owes everything to the labour of others, and contributes nothing of his own," though he much qualified this statement in a later chapter (xii.) of his work; and it is patent that land-owners often largely contribute to improve their estates by judicious outlay of capital in wages and other forms, and by applying their own abilities and managing powers to the same end, not to speak of the risk they incur of losing their capital, as the Duke of Bedford has shown in his recent work.²

¹ See his edition of Smith's, "Wealth of Nations."

² "The Story of a Great Agricultural Estate" (Lond. 1897); which, however, does not show how the losses thereon are recouped by the largely increasing profits on the Bloomsbury, etc., estates.

As long as landlords possess nearly absolute powers of sale over this natural wealth, this most important and needful of all raw materials, *uncontrolled* right of granting, determining, and refusing leases thereof, and of enforcing other onerous conditions with regard to its tenancy and uses, rental must continue to be a most unfair tax basis.

By gradually obtaining more public control over land and its uses, and cautiously entrusting central and local governments with the power of levying economic rent for the national benefit, the exchangeable value of tenants' and landlords' capital invested in land would in time become a more equitable basis for their respective taxation for imperial and local purposes.

§ 97.—Other Objections to Income as a Tax Basis

OTHER objections to adopting income as a tax basis have been raised. The Inland Revenue Board has observed in its annual reports, that the general objection to income taxes, their involving so much enquiry into persons' incomes and their sources, is now much reduced by *taxing incomes at their sources*. Doubtless this is true as regards *large* official incomes, salary, pay, rent, and interest incomes, but in the great majority of incomes assessed, those from £700 downwards, this method requires abatement of the full tax rate from them all, compelling their earners to reveal, on official documents, the details of their entire income sources before they can obtain the authorised tax rate deductions; and further, receivers of interest, etc., incomes below £160—the tax exemption minimum—charged with the tax, as they often are when not liable, must also reveal their various income sources before they can recover any tax thus wrongly deducted. Such claims for tax deductions and tax exemptions need so much careful record of all net and gross incomes, of tax charged, and correspondence in obtaining vouchers to support them, that many, rather than waste their time and expose their means of living, forego their rights, whilst others, unaware of their right of recovery (advice thereof being contrary to official rules), are unjustly mulcted of the tax. It is a sorry comment indeed on this plan of "taxing at the source"

to find so many obliged to present claims and vouchers before they can even get repayment of tax improperly deducted from their incomes. Private Income tax recovery agencies are actually thriving on the business of recovering improper assessments and over-assessments!

Other objections raised are, the impossibility of localising income to a corresponding area of taxation and expenditure, unfitting it therefore for a local tax; the impropriety of taxing incomes whose sources (property or capital) are under foreign or colonial protection, and perhaps taxed there; the question of taxing secondary or subdivided incomes; of joint or separate taxation of husband and wife incomes, and family incomes; of the equal assessment of joint and individual incomes so as to give no advantage to the former; also questions concerning the mobility of incomes as tax bases, such as difficulties in applying the proportional time element, and making tax charges correspond with the exact period of tax-payers' incomes, etc., etc.

It seems needless to dwell on minor objections, so I will only add in the Appendix (B) some further quotations from fiscal authorities exposing the defects of Income as a basis for taxation

§ 98.—Tax Bases, Tax Objects, and Tax Sources.

For the sake of convenience and simplicity of method, tax objects should be directly and distinctly connected with the tax basis on which they are assessable. Visible exchangeable wealth certainly lends itself to this purpose more readily than income can possibly do, springing as it often does from varied, blended, and hidden sources.

Dr John Gray has remarked: "Sound policy as well as plain sense dictates that production, not consumption, is the natural source of public supply."¹ And the vast amount of exchangeable wealth around us is but the stored-up production of very many years of labour; but it would be most unjust to make one year's assessable income, or even one year's net production, sustain the whole cost of Government services for protecting the *entire* stored-up production for such year. A basis so narrow

¹ John Gray, LL.D., "The Income Tax Scrutinised," p. 84. Lond. 1802.

as this would create the greatest oppression and protest, for income is very unassessable, escaping in all directions, and, as far as I am aware, no civilised nation has ever adopted a sole tax of the kind. The broader, more general, and universal the tax basis, the lighter and more equitable the tax rate naturally becomes.

§ 99.—The Ideal Tax Basis

HUMAN needs and desires being the original cause and source of all labour and production, and Government being an essential need in a community, adding *value* to all objects of wealth produced, it seems natural, indeed obvious, that the value of accumulated national production is the true basis on which to assess the cost of the public services, so far as such cost cannot be made a distinct charge on individuals for personal services rendered to them (fees), and on particular classes of property benefited (land taxes, shipping and cargoes charges, etc.).



§ 100.—The General Principles of Taxation

LASTLY to be considered are the general principles that have been prescribed by authorities from time to time as governing the levy of taxation; the principles on which the *cost* incurred by State and local governments, as representative administrators, and taxing powers in protecting the accumulated wealth and other rights of subjects and citizens in their respective tax-areas, may most equitably, certainly, conveniently, and economically be apportioned amongst all so protected, and recovered from them by means of taxation.

Adam Smith's four general principles, maxims, or canons of taxation, published in 1776, and widely known and quoted as guiding doctrines of tax science, claim first notice.

They are briefly termed :—

- (1) The doctrine of Equality.
- (2) The doctrine of Certainty.
- (3) The doctrine of Convenience, and
- (4) The doctrine of Economy.

Considerable doubt exists as to the exact meaning Smith attached to the first of these, Equality, as will presently appear, but it is evidently a most important principle, or, more correctly speaking, plexus of principles.

The other three maxims more affect the detailed administration of a tax or tax system, such as certainty regarding the tax law, the tax rate, the time when payable, etc., and the convenience and economy of the assessment, and mode of payment.

For ready reference I give at full length in the Appendix (C) Smith's four maxims, with his comments thereon. They apparently are an extended and improved version of the principles formulated by the Baron von Bielfeld in 1760-62, who wrote to this effect:—

“Taxes ought to have three properties: (1) A proportional equality, *i.e.* that all citizens, and, if possible, all strangers in residence, should join, each according to his ability (*faculté*), and his wealth (*richesses*), in paying them. (2) That the payment thereof should occasion as little trouble as possible to the tax-payer, and that he should be spared every kind of annoyance in respect of it. (3) That each contributor should be able to pay his proper proportion in the manner most convenient to him, at the time he is best able to pay it. The whole matter is resolvable into these three principles.”¹

Practically true and useful as both sets of maxims are, they seem to lack comprehensiveness, and, as I have remarked of the term “Equality,” to need precision. For instance, the great constitutional principle of Co-extensive and Co-equal Liabilities, Rights, and Privileges of tax-payers in a tax area, as regards their taxation and representation on the councils of their respective tax areas, seems unexpressed, and though applicable to many other matters besides tax legislation and administration, cannot properly be ignored in fiscal science, for the other principles and maxims seem to hang on it, or around it. The word “Equality,” however, as used by both writers, has doubtless an extensive meaning, and possibly may be elastic enough to include even the principle just noticed; certainly it is equality in more senses than one. Mr Fawcett, observing this indefiniteness in Smith's

¹ “Institutions Politiques,” vol. iii. La Haye, 1760-62.

first maxim (as other writers have done), sought to improve it by wording it thus: "The aggregate amount which each individual pays in taxes ought to be in proportion to his 'ability' to contribute to the revenue of the State." ¹

Deferring awhile the question whether this aggregate is discoverable under our confused multiple tax system, we will consider what a tax-payer's "ability" means. Is it simply income capacity, wealth capacity, or both? Is it ability to pay according to income capacity, wealth capacity, or both, but qualified with regard to the subject's liabilities? Is it any one of the preceding capacities and abilities, but regulated with some regard to the cost of the Government services rendered? Or, is it the value of a subject's wealth protected by the State, disregarding his obligations, but with some reference to the public cost entailed in giving such protection? There may be equality in all these principles of assessment, of these criteria of capacity or ability to pay taxes, provided it be indiscriminately applied to all tax-payers in the same tax area.

For readers interested in this subject, I add in the Appendix ² the summarised views of some well-known Austrian and German economic writers, who have studied this question of what constitutes ability to bear taxation.

In the view of equality taken by Fawcett, there seems insufficient regard for "Cost" as an element in assessment, and presently I shall notice this "Cost" principle as one of the cardinal or constitutional canons of taxation.

In both Adam Smith's and Von Bielfeld's use of the term "equality," it is associated with "proportion." Von Bielfeld distinctly points to *income*, as well as wealth, as matters for proportional equality in their taxation, for his term *faculté* implies income-earning ability; and in Smith's "equality" proportional *wealth*, as well as revenue, seems to be inferred, for he compares tax-payers to the joint-tenants of a great estate, who contribute to the cost of its management in proportion to their respective *interests or stakes in the estate*; that is to say, their respective wealth.

It seems to me certain that both writers comprised wealth, as

¹ "Manual of Political Economy" (1876), p. 526.

² Appendix (D).

well as revenue in their ideas of proportional equality in taxation, for financial or money incomes were but little developed in their time, and exchangeable wealth is but unexpended revenues.

We may conclude, then, that "equality" and "ability" need closer analysis to determine their precise significance as economic factors in the science of taxation.

Regarding Fawcett's suggestion touching the *aggregate tax* paid by each individual, and the apparent impossibility of discovering such aggregate owing to the effects of tax incidence and diffusion, etc., the difficulty is much increased by our complex system of indirect and direct taxes, by the multiplied taxes and tax rates, by the numerous large and partial exemptions permitted, and by the many important "privileged" or "class" expenditures granted from public revenues. No sound and substantial basis, therefore, can be found by which to measure or estimate the proper relative tax contributions of subjects, for the aggregate of final tax incidence on each tax-payer is the problem needing solution.

Professor Amasa Walker has acutely discussed Adam Smith's four maxims¹—his remarks, indeed, suggesting other maxims, as I shall presently show; and *he* proposed a fifth maxim: "The heaviest taxes should be imposed on those commodities the consumption of which is especially prejudicial to the interests of the people."

I venture to think this maxim is of no political or economic value, since every practical application of it is but a distinct interference with, and curtailment of, social freedom and liberty of user. In "The British Tax-payers' Wrongs"² its injurious action was shown, and I have here again referred to it, and the kindred matter of specially taxing "luxuries," as fiscal heresies of much the same character. Let me discuss these two matters from a purely financial standpoint first, and afterwards in their social aspect.

Prejudicial Articles.—Presuming that precautionary and other rules are needed to control vendors, lenders, etc., of such goods,

¹ "Science of Wealth," pp. 310-11. Boston, U.S.A., 1866.

² pp. 17-19, 24-25, etc.

entailing special cost both on them and on the local or central power (police and other supervision and control) to preserve the public health, safety, etc., it seems obvious that the *special private cost* thus entailed on vendors, etc., as well as the cost of licences imposed on them to meet the *special public charges* for controlling such matters, would, as a rule, be recovered from customers in the higher prices necessarily charged.

To provide for the *ordinary expenses* of State and local government services benefiting alike the owners of *all kinds of goods*, there seems then no reasonable excuse for taxing these "prejudicial articles" on some artificial or fanciful assessment in excess of the economic cost or sale price thus naturally increased. Any *special* assessment, therefore, imposed on such articles would be simply arbitrary, having no reference to relative cost, which is most surely indicated by relative price, for cost in the long run determines price, however frequent and important the changes in demand and supply.

Luxuries.—The same arguments apply to these articles, though not perhaps in so marked a degree. What possible standard or criterion could be established for assessing a special tax on luxuries of different grades, other than that embodied in their exchangeable price, naturally enhanced as it usually is from the very fact that they are luxuries?

Socially regarded, the difficulties involved in deciding what articles are prejudicial and what harmless, what are luxuries and what necessities, in reference to individual constitutions, tastes, habits, and employments, changes in custom, fashion, and opinion in the articles themselves, and in the uses to which they are employed or diverted, are so many and so weighty that no rules of the kind could justly be maintained even if agreed on. The use of some of these taxed articles for other purposes than food is often of the highest importance in production—for example, spirit employed in the arts and for many other useful objects, and high tax rates injuriously affect its economy in use even in its methyated forms.¹

¹ Compare also my remarks on Luxuries and Necessaries, p. 54, etc., hereof; also Cliffe Leslie's remarks on the action of the Spirit Duties.—"Cobden Club Essays" (1871-72).

M. H. Passy also has suggested a fifth maxim besides A. Smith's four: "A tax ought not to offer to those it affects a possibility of escaping its action."¹ Though partly connected with the questions of "prejudicial articles" and "luxuries" just discussed, it opens up the more important and comprehensive principle of *universality in taxation*, both in respect of persons and of tax objects, the obverse method of stating this principle being the well-known aphorism that "the exemption of some from general taxation means the extra taxation of others," for the principle will be found as equally applicable to tax objects and classes of tax objects as to persons and classes of persons, and I shall presently deal with them both as distinct constitutional principles, essential in securing equality in taxation.

Besides these codified principles, or maxims, of Von Bielfeld and Dr Adam Smith, and the amendment and additions suggested by H. Fawcett, A. Walker, and H. Passy, are others briefly noticed by Professor Bastable in his recent work on finance,² the more important of which I will name, with explanatory observations and comments where necessary.

Adolf Wagner divides tax principles into four classes. **Financial**—(1) "Taxes should be adequate to meet expenditure" (*i.e.* the cost of Government). (2) "Taxes should be elastic" (rate easily raised or reduced). **Economic**—(3) "The bases or sources of taxation should be rightly chosen" (direct or indirect, income, property, expenditure, etc.). (4) "The kinds of taxes should be selected with regard to their effect" (*i.e.* their non-interference with trade or business, their final incidence, etc.). **Ethical**—(5) "Taxes should be general" (universal, not falling on special classes or individuals). (6) "Taxes should be proportional" (just with regard to income, or to ability to bear taxation). **Administrative**—(7) "Taxes should be determinate" (based on fixed rules known to all concerned). (8) "Convenient" (causing no needless trouble, etc.). (9) "Collected with the least cost."³ These three last are identical with A. Smith's three last principles.

¹ "Dictionnaire de l'Économie Politique" (1852), p. 900. Article—"Impôts."

² Bastable, "Public Finance" (1892), pp. 372-76 in his Appendix.

³ Wagner, "Finanzwissenschaft," vol. ii. p. 304. Leipzig, 1883-90.

Adolf Held laid down three principles: (1) **Universality**—"All with incomes should pay." (2) **Equality**—"Income should be taxed without reference to its source." (3) **"The greatest possible care should be taken of the national welfare and its increase."**¹

Karl Von Hock considered taxes should be **just, logical, and economical**. In his work each of these heads is explained in considerable detail.²

M. C. J. Garnier has drawn up twelve rules and four special rules concerning taxation: **Rules**—(1) Equality among the contributors. (2) Moderation in taxation. (3) Precision as to the manner and time of payment. (4) The assessment and collection should be economical. (5) The method should not invite fraud. (6) Taxation should be proportional (or rather, as he further explains, disproportional, if moderately so). (7) Taxation should preferably be direct. (8) Simplicity and unity. Taxes should tend to unite the basis and the collection (*i.e.* simplicity). (9) The representatives of the tax-payers should agree on and control the taxation. (This rule comes in rather late). (10) Taxes should only be paid for services rendered (cost). (11) No tax should be opposed to public morality (lotteries, etc.). (12) Taxation should be absolutely necessary.

Special Rules.—(1) Luxuries should be specially taxed. (2) Taxes should specially bear on stimulants. (3) The exemption of the existence minimum. (4) Taxation should be imposed on articles not coming into competition with home produce and manufactures.³

These principles seem arranged without regard to logical sequence or relative importance, and some of them are of very questionable justice or expediency.

M. S. de Sismondi, whose leading principle was (like Held's and many others) *to tax incomes*, laid down four principles: (1) Every tax should fall on income, not on capital. (It will be found, as I have shown, that any such law can only be very partially applied in practice.) (2) In tax assessment net annual produce must not be confounded with net income (a difficulty at

¹ See his "Einkommensteuer," p. 121, etc. Bonn, 1872.

² "Öffentliche Abgaben und Schulden." Vienna, 1863.

³ "Traité de Finances," pp. 156-63. Paris, 1872.

once encountered in applying his first principle). (3) Taxes being the price paid for one's possessions (or the enjoyment of property), ought not to be exacted from him who enjoys nothing, taking from that which is indispensable for his livelihood (the principle of exempting the existence minimum). (4) In order not to put to flight the wealth it affects, taxation ought to be proportionally moderate, as the wealth is more easy of removal and of less permanent nature. It ought never to touch that part of income which is necessary to preserve that income.¹

This maxim condemns excessive rates of taxation, especially on wealth of quickly perishable nature.

Bastable prescribes certain principles, the first of which he terms "Productiveness." This seems an argument of the *petitio principii* type, "effect" being substituted for "cause," the other principles being then submitted to this touchstone—"productiveness," which is of course a "result" or "effect" of sound tax principles.

Mr C. Devas holds (1) Justice and (2) Morality to be the leading principles in a tax system; that taxes be fair or equal, and also moral, not causing demoralisation by occasioning fraud. He adds certain technical rules or maxims: (3) Certainty, that tax-payers may know their liabilities exactly; (4) Convenience, levied at the time and in the manner least troublesome and annoying; (5) Inexpensive, with small cost in collection; (6) Self-adjusting, rising with growth of wealth and population; (7) Uniform in yield, that the finance minister may know how to frame his budget; (8) Flexible, easily increased and reduced as required; (9) Innocuous, causing no serious damage to valuable industries or enterprises; (10) Straightforward, falling on the shoulders it is meant to fall on.² Rules 3, 4, 5 are Adam Smith's Rules 2, 3, 4.

Mention must also be made here of Dr Robert Meyer's valuable work,³ in which he brings together many of the tax principles of ancient and modern times affecting justice in fiscal matters. His opinions, however, are tinged with that prevalent modern German communistic doctrine, that Government is an

¹ "Principes d'Économie Politique," book vi. vol. ii. chap. viii.

² "Political Economy," p. 510. Lond. 1892.

³ "Die Principien der gerechten Besteuerung," pp. 10 + 413. Berlin, 1884

instrument for remedying differences in the respective wealth of its subjects, and that taxation is a justifiable means of accomplishing that end, despite the fact that such differences mostly result from sloth, ignorance, improvidence, etc. on the one hand, and on the other from diligence, intelligence, thrift, etc.

Though not exactly in the nature of principles or maxims, I am induced to add, as appropriate, some questions framed by M. Antoine Clement for testing the soundness of a tax system. He asks:—

“(1) Is the system of taxes legitimate—authorised by law ?

(2) Is it really justifiable in all respects—are the services payable all necessary and indispensable to the State ?

(3) Is the taxation (reduced as far as possible without injury to the public service) equally assessed and imposed ?

(4) Is it proportional to the contributory means of the payers ?

(5) Are the different modes of levy (or collection) among practical methods those which impose the least trouble and difficulties on the tax-payers, and those which involve least expense ?”¹

And somewhat similar are some remarks on “Bad taxation,” by Mr T. G. Shearman, a well-known American free-trader. He writes: “What are bad taxes ? Surely all taxes are bad which bear most heavily on those who are least able to pay, and who derive the least benefit from Government. Any tax is bad which takes from the poverty of the poor to add to the wealth of the rich. Any tax is bad which can easily be evaded by fraud or falsehood, and is therefore paid only by the honest and truthful. Any tax is bad which can only be collected by oppressive and degrading methods. Any tax is bad which unnecessarily hinders the increase of wealth and comfort among the people, or which necessarily brings into existence a class which finds its profit in promoting wastefulness and extravagance in public affairs. Finally, any tax is bad which makes the real tax-payer pay it twice over, while the Government receives it but once.”²

¹ “Dictionnaire Général de la Politique.” Article—“Impôts.” Paris, 1874.

² “Natural Taxation.” New York, 1895.

These two quotations embody and suggest many tax principles of practical importance.

And now I will collect together, define more clearly, and, where needful, discuss, certain general fiscal principles, axioms, or maxims, which have commended themselves to, or been virtually acknowledged by, political economists, social philosophers, statesmen, public administrators, or executive officers, either as fundamental principles of constitutional importance, based on equitable, economic, or other weighty considerations, or, as valuable practical administrative rules; and with the object of evolving from them a reasonable tax system, principles mutually antagonistic have naturally been excluded, even though supported by authorities recommending some of the doctrines here advanced, for a tax system, if sound, must of course harmonise and be in complete accord with itself, in other words it must be *logical*.¹

According to their primary or secondary importance, I have arranged these principles under two heads: "The Cardinal or Constitutional Canons of Taxation," and "The Administrative Maxims of Taxation."

The Cardinal or Constitutional Canons of Taxation

FIRST in importance is the broad and comprehensive general principle—

§ 101.—(Canon 1) Co-equal and Co-extensive Liabilities, Rights, and Privileges of Tax-payers in a Tax Area as regards their Taxation and Representation on the Councils of their respective Tax Areas

THIS principle asserts the right, that those who bear a tax should have a voice in the election of representatives to the governing body or council which decides on, and controls (by its majorities) the public expenditure in its area of power, and the imposition of taxation to meet such expense.

¹ Von Hock's Second Principle.

This doctrine is now so generally recognised and admitted as a just and reasonable safeguard for free and well-organised communities that it has become an established constitutional principle, and it might seem useless to dwell on it, but experience has shown that it has often been most imperfectly carried out in practice in the legislation of our own and other nations; for example, the present generation's Parliamentary representatives have been allowed to impose expenditure and taxation by means of Death Duties on certain small numbers of tax-payers—the death beneficiaries *of more or less remote future years*—without apparent *constitutional right* to do so beyond the majority vote imposing the tax.

But the principle has been more distinctly ignored in giving voting power to persons who in no direct and visible form are contributing to the public taxes, enabling them, if they think fit, to secure the return of members pledged to plunder the industrious and wealth-acquiring members of society.

In the absence of any specific laws to a contrary effect, the power of taxation is naturally granted for the definite purpose of obtaining the money needful to carry out the functions assigned to the Government and Executive of the tax area for the time being, and for that purpose only.¹

This constitutional provision of ways and means is in no way naturally associated, and has nothing in common, with theories and policies concerning the fostering or repression of certain trades, occupations, manufactures, or businesses, the redress of social inequalities in respect of material or personal wealth, abilities, or faculties, or the restriction of intemperance or other injurious or luxurious habits or inclinations, and should certainly not be made an indirect channel for promoting such very different matters of legislation, which could be dealt with without any reference to taxation or tax principles, being distinct

¹ As I write (Session 1894) a Bill for English Local Government contains provisions for imposing taxes (rates) on certain parties, from the incidence of which, as has been pointed out, certain other parties in the same tax area would clearly be able to escape; and the "Finance Bill" largely increases the power of present representatives of the people to impose future taxation on comparatively small minorities of tax-payers in forthcoming years, by means of deferred and graduated Death Duties.

subjects of social organisation, sumptuary matters, questions of hygiene, etc.

The renowned American statesman, financier, and economist, David A. Wells, in a pamphlet written in 1892, entitled "A Tariff for Revenue : What It Really Means,"¹ has put this matter in a very telling and forcible light. The article is far too long to quote here, though every line of it, I believe, would well repay careful study. I will only give two extracts.

After explaining the origin and justification of taxation, he proceeds: "Now, if these premises are correct—and it is difficult to see how they can be disproved—it would seem to follow that to seek to make taxation, which is a fit contrivance only for raising revenue, an instrument for effecting some ulterior purpose, be it never so just and legitimate, to seek to use it for the attainment of any other advantage than the obvious one of raising money, is to lose sight of a fundamental principle of every free government, and to forbid all expectation of recognising any other basis for the exercise of this great sovereign power of the State than expediency,² which, in turn, will depend upon the actions, passions, and prejudices of legislators, who may not be the same in any two successive legislative assemblies. . . . If a State, therefore, in the plenitude of the wisdom of its legislators, desires 'to interfere with the operation of the laws of trade, domestic or foreign, control the preferences of its citizens in respect of production or consumption, repress one form of industry and stimulate another, and discourage even to prohibition the indulgence of such tastes and passions as it may judge to be detrimental to itself or the individual,' it may legitimately exercise functions entirely different from that exercised in raising revenue, and governed by entirely different principles. The right to regulate trade and commerce, and the power of police, are entirely independent of the right to raise revenue."

And equally so, it would seem, is the right—if it be a right at all—to redress by means of taxation the social inequalities in

¹ See *The Financial Reformer* for October and November 1892, where it is given *in extenso*.

² One of Lord Herschell's pleas for the graduated Death Duties. See Debate on "Financial Bill," House of Lords, 26th July 1894.

fortune ever arising from endless causes among the classes and individuals of a nation ; it may be a question for distinct legislation—a matter for general voluntary subscription, etc.—but is on quite a different footing to the constitutional right of, and liability to, taxation.

The question also as to the amount and time for which tax-payers' representatives in tax areas may commit themselves and succeeding generations of tax-payers to particular expenditure and taxation has never, as far as I am aware, been distinctly settled in this country—that is beyond the manifest right of the Commons to provide, as the majority may decide, for the public expenditure and taxation of the current, the forthcoming, and the past year, or portions thereof ; and yet this is a most important element in securing the constitutional freedom of subjects ; but the spirit of our constitutional statutes and practice would rather lead one to conclude that such period should be limited.¹ The method of raising the taxation of a nation is surely a matter to be regulated on fixed principles, entirely independent of party or political tactics and emergencies.

This general principle of Co-equal and Co-extensive Liabilities, Rights, and Privileges of tax-payers, in regard to their taxation and representation, is evidently the primal cardinal Tax Canon. Annul it, or impair its integrity, and the integrity of all the other Canons and Maxims must suffer, and the taxing power be gradually converted into an engine of oppression, possibly not confined to impositions on the industrious, temperate, and thrifty tax-payers of the present time only, but affecting the interests of future generations.

During the last thirty years this great tax principle has been undermined by new Franchise Acts, ignoring the liability to pay direct taxes as an essential condition for acquiring the right of franchise in elections for central and local government bodies, and until this principle is reasserted in unmistakable terms in

¹ A late Chancellor of the Exchequer, Sir W. Vernon Harcourt, as a constitutional lawyer, took this view so far as Naval Expenditure was concerned, condemning the anticipatory principle of the Naval Shipbuilding Credit Act of the preceding Ministry, and taking means to limit its action as soon as he was able. Whether in public expenditure, or in taxation, the principle violates constitutional justice.

Statute law, tax-payers are simply at the mercy of a majority of voters paying but little or no direct taxes, for the House of Lords could scarcely be expected to intervene.¹

§ 102.—Canon 2—Universal Tax Liability of all residing in a Tax Area, and Sharing the Benefits of Government

CLOSELY connected with the preceding principle come all the other canons and maxims, which, so to speak, depend on and around the central general doctrine.

Henry Raikes, in his "Constitutional History" (1851), vol. ii. p. 594, remarks: "As persons, property, and, we may add, political privilege, are alike recognised and protected by Government, it is just that they should all be called on to contribute to the emergencies of the State." And further (p. 597), "And as protection to person, and the free power of acquiring both property and political rights is enjoyed by the poor as much as the rich, there is no injustice in calling on them for a contribution to the State."

M. Turgot has observed: "Government expenditure having the interest of all as its end, all should contribute to it."² Von Bielfeld, in his maxims lately quoted (p. 211), supports the doctrine in his allusion to foreign residents even being amenable to taxation. M'Culloch wrote: "A cardinal principle of taxation is, that it should be equal and universal; that none should be so high or so low as not to feel its full pressure."³ Amasa Walker has observed: "Every subject, male, female, child, old or young, should pay taxes, idiots, lunatics, cripples, all having revenues."⁴ M. H. Passy, in his recently quoted fifth axiom of taxation: "A tax ought not to offer to those it

¹ Gustav Cohn observes: "We are especially bound to enter a protest against that immoral claim, which, in direct opposition to all principles of political ethics, demands for the masses an increasing share of political power, together with a progressive exemption from taxation." See his "System der Finanzwissenschaft," Stuttgart, 1889; also, Translation by T. B. Veblen, Chicago, 1895.

² E. Daire's "Œuvres de Turgot," vol. ii. p. 270. Paris, 1844.

³ "Encyclopædia Britannica" (1860), p. 37. Article—"Taxation."

⁴ "Science of Wealth" (1866), pp. 308-9.

affects a possibility of escaping the operation of the impost,"¹ appears to recognise this important principle though viewing it from a slightly different point of view. The most noted German and Austrian writers on taxation—Von Stein, Wagner, Schäffle, R. Meyer, etc.—admit this as a cardinal fiscal principle.²

The well-known axiom : "The exemption of some from taxation means the extra taxation of others," is only another way of asserting this general principle of the universal liability of all subjects in a tax area to contribute to its taxation, though it in no way implies that there may not be a *general* exemption from taxation in respect of certain matters.

Personal liability, then, to contribute to the taxation imposed by the Government of a tax area rests on every individual under its jurisdiction, however exalted or insignificant, and is superior to every other claim on them, for it means the insurance of life, of liberty, and of other rights as subjects and citizens, including that of undisturbed ownership of property, however limited its quantity or value. The weaker, the poorer, the more ignorant and helpless the subject, the more evidently does the State become charged with the duty of defending and preserving his rights ; and any estate or means he may possess is justly liable to defray the cost thereof.

From mistaken applications of this principle have arisen all kinds of poll taxes, the injustice and unpopularity of which have become proverbial. Many have been the attempts thus made to assess the taxable capacity of subjects for *personal protection*, regardless of the fact that subjects are taxed indirectly through the processes of tax incidence and its diffusion.

In dealing with Canon 6, I shall show that this claim for the State's protection, were it possible to embody it as a charge against all citizens, would be an equal sum from each.

The protection, however, of subjects' *property* is quite another matter, for wealth needs protection in very different degrees,

¹ "Dictionnaire de l'Économie Politique" (1852), p. 900.

² Dr R. Meyer, "Principien der gerechten Besteuerung," § 48-49, pp. 298-307. Berlin, 1884.

and it affords and secures in great measure to our lives their strength, success, interest, and happiness; it also gives to its possessors powers and influence, and greater opportunities for helping or injuring the interests of others.

§ 102a.—Non-Exemption from Taxation

THE doctrine of non-exemption from taxation is, as I have said, only another way of asserting the principle of universal liability to taxation. The State as a collective body, and the Sovereign as head of the executive, are naturally equally amenable to it, however uncustomary it may be to charge either with taxes in their official capacity as property owners. As a private owner of property, if not as the recipient of a State income, our venerated Sovereign has twice at least during her reign publicly expressed her desire to be taxed on the same footing as all her subjects; and the principle carried to its legitimate and logical conclusion implies the taxation of the regal income from the Civil List, and also the State property under the trust and charge of the executive State officers.

In M. de Turgot's financial reports to his Sovereign, he vigorously opposed the principle of exempting privileged persons and classes from general taxation; an example is given in the Appendix, being too long to insert here.¹

As regards the exemption of the masses from direct taxation, M'Culloch, Leroy-Beaulieu, and many other writers agree that it is altogether wrong in principle, and most dangerous as a policy; the economic argument, however, that it would sometimes cost more to collect the taxes than to abandon them, is one that may have some weight, though I believe the right method in such cases is to demand the taxes all the same, and for any remaining irrecoverable, to require Parliamentary sanction to remit them,² but with the consequent entire or partial forfeiture of the voting rights of defaulters. Those whose voting rights were thus forfeited would still, as the

¹ "Œuvres de Turgot" (Eugène Daire), vol. ii. pp. 270-71. Paris, 1844. See Appendix (E).

² As done with irrecoverable Irish loans, and other local liabilities.

results of tax incidence, pay *some* taxation in the form of indirect taxes, like those duly meeting the State's claims for direct taxes.

To exempt from taxation *property* (however small) receiving public protection from the taxes and rates seems very questionable policy, though certainly it would be unwise to distraint for taxes on absolutely needful objects for home life and for earning a living ; but it is much more obvious that the taxation of a person's *income* should be limited by a "minimum-of-existence" exemption, so often advocated by economists, and which will presently be noticed as a tax maxim.

Leroy-Beaulieu has well remarked : "Some people argue that subjects with small means should enjoy freedom from taxation. This doctrine, both as a right and as a fact, is untenable. As a matter of right, each person enjoying the protection of the State, sharing in the alternating good-fortunes and adversities of the nation, ought to regard it as a duty to pay taxes. Subjects should repel with scorn the proposal to exempt certain classes. Moreover, in regard to right, among modern nations all adult men taking part, thanks to universal suffrage, in the government and administration of the State, ought to consider themselves as absolutely responsible for the wants and misfortunes of the State. He who governs and he who administers ought to pay. Universal taxation is the necessary corollary of universal suffrage."¹

And then he proceeds to show how dangerous it would be to exclude the poor from taxation while they enjoy the privilege of the franchise ; all check upon the squandering of the State revenues would thereby be removed. Babbage and M'Culloch both strongly emphasise this important constitutional principle of tax liability, representing that the exemptions allowed for the smaller incomes under the Income Tax, and for lower-rented dwellings under the House Duty caused these taxes, as assessed, to assume the character of confiscations of the property of the rich for the benefit of the exempted classes. In regard to the Income Tax, Charles Babbage remarked : "In consequence of these unjust and unstatesmanlike exemptions, numbers of

¹ "Précis d'Économie Politique," p. 360. Paris, 1888.

electors will urge their representatives to pledge themselves to oppose other taxes, and the ultimate result will be that the wealthy will be unjustly plundered, capital driven from the land, and at last the ruined fortunes of the rich would be accompanied by the absolute starvation of the poor.”¹ A dispersion of capital invested in land has certainly been going on for many years, but it is impossible to say how far this is due to unequal taxation.

McCulloch, after expressing his apprehensions that direct taxes were beginning to be looked on as taxes on the rich only, continued: “On what pretence can any class be excused from contributing to their support? It is absurd to say that A should be exempt from taxation because not so rich as B, for if you admit such exemption in case of A, how can you refuse it in case of B, who is less opulent than C, who is less rich than D, and so on? All that individuals can fairly claim is, that they shall be taxed *in proportion to their means*, whether these be great or small. The amount of the latter concerns themselves only, and is a matter indifferent to Government, which is bound to treat all its subjects alike, without regard to their wealth or social position. You cannot diverge from this rule either to the one side or the other without being entangled in endless difficulties and contradictions. Whatever is a favour to one is necessarily an injustice to some one else quite as deserving and as well entitled to protection.”²

This last argument applies equally to the expenditure of public moneys on particular persons or classes, as I have shown (§§ 43-44).

The greater the number exempted from a tax, the more unequal and unjust does the tax become. The incidence of the British Death Duties presents one form of this tax principle.

¹ “Thoughts on the Principles of Taxation,” etc., pp. 14-15. Mr William Newmarch, in *The Economist* of 12th December 1863, showed that incomes below £100, then exempt from income tax, amounted to more than half of the income liable to assessment. With the increased exemption limit of £150 since 1876, and its extension in 1894 to £160, the incomes and number of voters now exempt from direct taxation must vastly preponderate.

² McCulloch’s Edition of Adam Smith’s “Wealth of Nations,” p. 619 (Appendix Notes). Edin. 1863.

The number of widows, orphans, charitable institutions, and others depending on, or benefited by the taxable wealth of persons dying each year, is very small indeed in comparison with that of the other subjects of the State, perhaps not eight in each thousand, yet on this small number is concentrated a taxation of over £14,000,000 a year, with further charges and legal fees entailed in administering the estates and bequests, etc., in accordance with the requirements of the Death Duties Acts.

The exemption to a large extent of provincial, municipal, and other local government bodies from direct taxation, imperial and local, seems quite as unjustifiable,¹ it directly tends to induce them to supply articles and services hitherto supplied by tax-paying associations and individuals, who must pay higher tax rates in consequence. For instance, a town council builds a town hall, with a grand concert or ball-room, and proceeds to give entertainments, competing with private ventures of the kind, handicapped not only by the rent and taxes payable on the rooms they must occupy, but by the local prestige, etc., enjoyed by the town council, their competitor.

Local governments derive equal benefits from State protection and institutions as private associations and individuals, and it is not clear what right they have to exemption from the usual tax charges laid on the latter, beyond that of custom and privilege.

This negative method of stating the principle yields, then, quite as strong arguments as the positive method.

§ 103.—(Canon 3) Universal Tax Liability of all Accumulated Material Wealth in a Tax Area for defraying Cost of Government Protective and Administrative Institutions

By the term "wealth" is meant (as partly signified above) actual visible wealth, not securities, orders, warrants, etc., for it, pro-

¹ Other examples of exemption affecting public finance (State and local) have already been noticed at pp. 42, 123, etc.

mises or contracts concerning it, or any other symbols of, or substitutes for it, as already explained (§ 12).

Government protection and co-operation being extended to every kind of property liable to pillage, destruction, and loss of value from injury, trespass, etc., it is only reasonable to require that every portion of such wealth should contribute towards the cost of such protection, for special exemption means special privilege.

This principle appears so obviously just and natural, that the burden of proving the contrary should certainly rest on those who dispute it, but a practice has lately sprung up, notably in the United Kingdom, of confining taxation, so far as it affects material objects and bases, to some *particular articles*—in our country fermented liquors, tobacco, tea, and a few other consumption commodities—also to certain lands and to houses above a certain rental, this special taxation being sometimes defended on the plea of *economy in the cost of collection*! An enormous quantity of goods and values receiving State and local government protection thus escapes from contributing to the cost of Government, the exemption, of course, entailing much heavier tax rates on the remaining tax objects.

These heavier tax rates are most marked in the Customs and Excise Duties on spirits and tobacco, but, as noticed when considering tax bases,¹ it is really much heavier than most people suspect, even on the more lightly taxed articles, heavier indeed than the late Mr Cliffe Leslie's able analysis of the customs duties' incidence showed.²

That these excessive rates of taxation have injurious effects is unquestionable, as explained in my former work;³ the more onerous the rate of tax, the more likely is it to become a monopoly in the hands of capitalists able to advance large sums in the shape of taxes. As a natural result we find brewers, distillers, tobacco importers, etc., rejoicing in the receipt of exceptionally large revenues, with ever-increasing establishments.

This heavy special taxation is, of course, entirely opposed to

¹ pp. 178-9, etc.

² See "Cobden Club Essays" ("Financial Reform") (1871), p. 217, and "Essays in Political and Moral Philosophy." Lond. 1879.

"Wrongs," pp. 14-32.

the "Equality-of-pressure" theory, that "a tax should bear lightly on as many points as possible, heavily on none," for the only method thoroughly and completely to carry it out is—to impose equal taxation on the value of all articles of exchange and use.

Mirabeau laid it down as a principle, that "the Government of every kingdom ought to aim at procuring the greatest plenty possible of productions, and to these productions the greatest exchange and selling value possible"; and he added: "*I know of no way more likely to effect these two results than by a single tax, which should fall upon the value of every commodity whatever, at the smallest rate possible to secure the needful amount.*"¹ Obviously, a tax rate imposed on *all* articles of production, without any distinction, would tend to be the lightest possible rate.

The Physiocratic theory, exempting all things but land from taxation, is the direct antithesis of this principle; but, as before remarked, there are under our British tax system many goods and values of different kinds exempted, and even lands and buildings escape taxation under certain circumstances and conditions. Upon what plea, for instance, can churches and educational establishments, science and art, etc., buildings and lands, be justly exempted? As Professor A. L. Chapin wrote, touching this matter in the United States: "Exemption favours a portion of the community at the expense of others not interested. The policy involves an union of Church and State at variance with the United States' Constitution and the fundamental principles of their government. It involves a liability to the accumulation of vast wealth held in mortmain by never-dying corporations independent of the State, possibly subject to foreign control, which may be used against the best interests of the States."² Thorold Rogers, alluding to the propriety of imposing taxes on *property*, and not on the *use of property*, and to the fact that no kind of property was exempt from contribution in the eastern and middle States of the American Union, observed that "this was absolutely just and necessary. Hence, the owner of a magnificent house, with well-appointed and ample

¹ "The Economic Table" (1766), p. 164, English translation, British Mus. Lib.

² "Universal Cyclopædia." Article—"Taxation." New York, 1878.

grounds, does not, as in England, escape with a nominal assessment on the ground that the letting value of the property is problematical, and therefore low. Again, the owner of void tenements is not excused from contributing on their assessed value. American statesmen argue that it is not the duty of the public to remit an obligation on the ground that an owner does not dwell in his own house, or find a tenant for it. . . . There is no reason why an empty house or shop should escape because the owner does not employ it for the purpose which led to its erection. Hence, while in England, landowners being relieved from a tax on void tenements escape everything but loss of interest on their property, and therefore, if rich, are able to withhold their property from the market under terms of special advantage, the American owner gets the sharp reminder of local taxation that it is his business to inhabit, or sell, or let his tenements."¹

This non-exemption principle is the most practical and easily attainable of the measures of tax reform advocated by the progressive party in the London County Council.

The writer of the article "Taxation," in the "American Cyclopædia"² observes: "The landowner who voluntarily allows his lands to lie idle and produce no returns, and thus avoids contribution to the common benefit of society, has no claim to exemption, and as his property is meanwhile protected by the Government, it is only reasonable that he should make due return for this protection."

The eminent American statesman, the Hon. D. A. Wells, has noticed the exemption from taxation of capital employed in British manufacturing and banking concerns, and of the so-called "raw materials" of industry, observing that it was merely a subtle form of protection of those forms of wealth.³ Extra taxation of other kinds of property becomes needful owing to this discrimination.

Sir Morton Peto has observed that "it has been admitted as a principle by political economists that to tax only that portion

¹ "Work and Wages" (1884), p. 537.

² Ripley and Dana's, vol. xv. p. 588. New York.

³ See his Report as Special Revenue Commissioner of the United States in 1869, also "The British Tax-payers' Wrongs," p. 150.

of capital which is actively employed is peculiarly unwise and unjust—*unwise* because capital is the means of employing labour, and whatever tends to diminish its amount, must tend also to diminish the means of employment; *unjust* because the property which is unproductive requires as much protection by the State as the property which is productive, and the fundamental principle on which taxation is applied is to afford the State the opportunity of providing for the protection of property.”¹

The same principle applies equally to all kinds of wealth or capital, whether in the form of circulating or fixed capital, or of wealth producing no visible *material* returns. Their relative measure of utility or exchangeability, that is their *value*, and their relative *cost* to Government for protection, etc., constitute, in conjunction with the element of time of possession, the only true basis for their proper tax assessment.

M. de Parieu, touching this universal liability of all accumulated goods and property to taxation, has quoted the great French constitutional authority, Jean Domat, to the following effect: “State expenditure is for the benefit of all subjects, and each has to contribute according to the proportion of his property; it would not then be right to specially charge one kind of property more heavily than another kind, and make the charge fall entirely on those who possessed goods of a kind subject to the impost, whilst exempting entirely those whose goods were of a different kind.”²

The old Dutch writer on taxation, Boxhorn, has noticed this kind of equality; his views may be thus translated from his work, “*Institutiones Politicæ*”:³—

“In the levy of taxation, the utmost importance is to be attached to equality, which chiefly consists in this—that those whose wealth is invested and sunk in different kinds of property have corresponding assessments, and bear corresponding burdens.”

So important are these two principles, or canons (2 and 3), of the universal liability to taxation of persons and of material

¹ “Taxation: Its Levy and Expenditure,” p. 84. Lond. 1863.

² “*Droit Public*” (Paris, 1722), titre v. vol. ii., quoted in “*Traité des Impôts* (1866), p. 23; also Translation (1767) by Strahan.

³ See my Introductory Quotations, *ante*, p. xvii.

products, or, to express it otherwise, the non-exemption from taxation of any person, and of any material product of value, that it may safely be affirmed as an axiom, that the tax system of a nation strictly enforcing these two principles would (other conditions being equal) prove more satisfactory in practice than that of a nation administering them more laxly, more satisfactory both with regard to tax productiveness and to the contentedness of the tax-payers.

Other objections to the principle of tax-exemption have been noticed under the head of "Public Finance" (p. 123-4), and apply, as I have shown, to public as well as private property; and it will be found also that exemption from the *benefits* of special public expenditures, enjoyed by particular classes only, is but another phase of the same principle, especially unjust when occupiers of houses paying rentals above a certain amount alone are taxed to provide for these class expenditures, whilst many enjoying the full advantages of these privileged expenditures pay no direct taxes whatever to Government, central or local, thus emphasising the injustice and inequality.

§ 104.—(Canon 4) The Cost of Public, Protective, and Administrative Institutions for a Tax Area should regulate the amount of its Taxation; and, as far as practicable, the Cost of Protecting Distinct Classes of Wealth should regulate their respective Taxation

THE above principle is violated when the taxation from one area is applied for the benefit of some other area, or areas, as in the application of imperial taxes to the advantage of local areas, the evil effects of which were noticed in my remarks on Public Finance (pp. 111-12). No hardship or inconvenience need attend the enforcement of this principle, for particular areas of taxation and expenditure can be created or united for particular purposes; certain local expense partaking of the nature of general charges can, by arrangement, be assigned as imperial, provincial, or county expense, according to its more or less general char-

acter; public expense for property afloat can be kept distinct from that on property ashore; and public expense on account of land, land courts, ordnance surveys, etc., can be charged specially to landowners and holders only.

It is obvious that this principle of Cost can be carried out to a certain extent only, that it is impossible to apply it as a general principle to every minor area and to each individual, but I venture to suggest that with the introduction of more just and simple fiscal arrangements, and more complete and satisfactory public accounts, there would be no difficulty in greatly extending this equitable principle. Neglect of it, in large measure, caused the Civil War of 1642-45 in England, and the Cornish Rebellion in earlier times (1497) was due to the Cornishmen insisting that scutage was the proper constitutional tax for defraying the cost of the expedition against Scotland, and not a tax on the commonalty.

The Cost of Government agency should certainly govern the extent and rate of taxation. As it is wisely economised and controlled, and as the scope of the Government functions is for good and sufficient reasons limited, the tax rate will be low; and, on the contrary, as the cost is wastefully, improperly, or negligently incurred, and as the scope of Government functions is for good and sufficient reasons or otherwise enlarged, the tax rate will be high.

Charles Babbage has observed: "As a general principle . . . all taxes should be proportioned to the cost of the service for which the taxes are paid, otherwise, some portion of the people would be compelled to pay for services they do not receive, but . . . the cost and difficulty of applying this general principle must limit the extent to which it is politic to carry it into detail. Ships are liable to peculiar danger from the elements, for protection against one portion of which they pay a special tax to support light-houses, beacons, and other means of contributing to their security when near the coast. These means are useless for the protection of houses, which, therefore, are not subject to pay for them. But both houses and ships are subject to damage and destruction by fire and other accidents. Against such misfortunes the owners of both can insure themselves, and will pay to the insurance companies in

proportion to the nature of their risks.”¹ Finally he came to the conclusion (p. 7) that taxation ought to be proportional to the cost of maintaining those institutions, without which neither property nor industry can be protected, or even exist.

Economists and writers on taxation generally take this view, some naturally guarding themselves against its extreme application; for instance, De Parieu, with reference to Gandillot's theory, that taxation should be proportioned to the expenses incurred by the State for each tax-payer.² John Stuart Mill also keenly criticised the *quid pro quo* tax theory, which is really the principle of “cost and returns.”³ Both economists saw the folly of applying the principle too strictly.

Regarding for a moment the “returns,” or the relative advantages gained by the rich and poor respectively, it would seem doubtful which gains most from the application of tax funds; the poor cause much public expense in various ways, the rich expend large sums in protecting their wealth besides their share of public taxation thus applied, and the poorer classes are largely employed in, and paid from the taxes for, defending the property of rich and poor alike; some economists therefore have not unreasonably concluded that, were public protection altogether withdrawn the poor and weak would suffer most.

The rich, however, have derived, even up to late years, the major share of advantages from public *legislation* (monopoly in land, unequal taxation, etc.), though now the tendency of legislation seems inclining to favour chiefly the wage-paid classes' interests. But the relative benefit gained can never be satisfactorily determined, as each class and individual will form their own opinion thereon; the question of *cost*, however, is one that can be approached with more definite results.

Locke, in his “Essay on Government” (1694), wrote: “Government cannot be supported without great charge, and 'tis fit every one who enjoys his share of protection should pay out of his estate his proportion for the maintenance of it.”⁴ In this

¹ “Thoughts on the Principles of Taxation,” pp. 3, 4, 7. Lond. 1848.

² See “Essai sur la Science des Finances,” p. 60. Paris, 1840. Quoted by M. de Parieu in his “Traité des Impôts,” p. 63.

³ “Principles of Political Economy,” vol. ii. pp. 392-93. Lond. 1865.

⁴ Chap. xi. § 140.

sentence are indicated the principle of *universal personal tax liability*, the principle of *the tax liability of all wealth* (estate, not income only), the principle of *cost*, and the principle of *proportionality*, next to be noticed.

The Right Hon. John Bright, Britain's most renowned "tribune," remarked in one of his speeches: "The taxes which now exist ought to be put on a satisfactory and honest footing, so that every man, and every description of property in its just proportion, may be called upon to support the burdens and necessities of the State."¹

Here again these four great principles are distinctly indicated, and from John Bright's earliest appearances in the House of Commons his efforts were directed to the primary and essential object of securing to his fellow-subjects more ample recognition of the *first* great tax principle, or canon, that of Co-equal and Co-extensive liabilities, rights, and privileges of tax-payers as regards their taxation and representation on the councils of their respective tax areas.

§ 105.—(Canon 5) Proportionality in Value, Tax Rate, and Time of Possession essential in taxing Accumulated Material Exchangeable Wealth

THIS principle of proportionality represents at once the guiding-star or compass, and the trusty anchor or moorings of any satisfactory tax system. M. H. Passy has observed: "It is a fundamental principle, against which you cannot transgress with impunity, that a tax must be proportional. The tax ought not to fall upon the individual, but on the article."² Doubtless he had fully realised the fact that there is no practical method of assessing the relative proportional taxable value of different individuals—the personal value residing in them severally—from a political, fiscal, or social point of view.

The late Dr William Farr—a former president of the Royal Statistical Society—drew particular attention to this important

¹ House of Commons, 21st July 1859.

² "Dictionnaire de l'Économie Politique," pp. 908-9. Article—"Impôts." Paris, 1852.

tax principle, and especially to the time element involved in the proportion. In a paper read before the Society on "The Income and Property Tax, and the Equitable Taxation of Property,"¹ he observed: "And no more obviously just rule for determining the quota of public contributions can be laid down than this: That each member of the community should contribute every year to the public expenditure in a fixed proportion to the amount of ~~his~~ property in his possession *during that year*. . . . The value of property is the only infallible index to average profit, and is in all cases the true basis of equitable taxation. For no more exact measure of his ability and duty to contribute to the public revenue can be found than the value of his property." This distinguished actuary and statist then laid down the axiom (p. 19): "A tax on the subjects of a State is equitable when it is proportional to the value of the property severally in their possession, *and to the time of possession* . . . according to the rate of tax, the value taxable, *and the time of possession*. To be equitable, proportionality between the tax, *the time*, and the property must be preserved" (p. 34).

I have italicised the above references to the time ratio, that element being wholly disregarded in "indirect" taxation, and to some extent even in "direct" taxation.

Proportionality in respect of tax rate has, however, been fully recognised as a correct principle by the great majority of writers on taxation, as opposed to the comparatively few who imagine that taxes should be made a means of redressing inequalities in fortune, and to those who maintain that they should be used to repress or prevent what they are pleased to pronounce injurious and luxurious habits or tastes, but really harmful only when carried to excess.

In my remarks on Indirect Tax Bases (p. 177-8) it was shown how the neglect of the time element in the proportion greatly increases the severity of the taxes imposed on commodities of rapid consumption; the incidence also of the income tax and

¹ See *Statistical Society's Journal* (1853), also his evidence before the House of Commons' Committee on the Income and Property Tax (1852), Parl. Paper 510, Q. 4895-99.

licence duties, both of which may be viewed as direct or indirect taxes, according to circumstances, is much aggravated by this disregard of time in their assessment.

I will first notice some of the more direct opinions of economists, statesmen, etc., in favour of this tax principle. M. Leroy-Beaulieu writes: "This rule of proportion in taxation is the only instrument of precision, the only criterion that one possesses in fiscal problems; it is also, if one may use a rather forcible expression, a sort of palladium which shelters subjects from oppression. Without proportionality according to the ability of subjects, there would be in questions of taxation nothing but arbitrariness and caprice."¹ Again: "A strict proportionality in taxation with the means of the contributors is the only just, permanent, and easily applied principle, the only one also which, from its nature, can thoroughly inspire in an electoral body economy and good management in public affairs."² For, if the poorer pay at a less rate than the upper classes, there at once arises a tendency among the former to increase the public expense and taxation in those directions in which their own interests are more particularly served, the salutary check of a uniform tax rate being lost; but this proportional taxation of rich and poor alike must be on actual values and actual times of possession, or the poorer classes would be heavily mulcted, as is now the case in this Kingdom, some important kinds of consumption goods being heavily taxed (the lower sorts of tobacco, spirits, tea, beer, etc.), whilst most obvious luxuries escape.

The late Sir Morton Peto, in his work on taxation,³ thus referred to Joseph Hume's (the eminent economist's) views on equitable proportionality in taxation:⁴ "Mr Hume's peculiarly clear mind was brought to the conclusion that to be equitable, this tax (the property tax) should every year be levied on the value of the property (labour and skill being the property of

¹ "Traité de la Science des Finances," § 130 of 1877 Edition; quoted by Robert Meyer in his "Principien der gerechten Besteuerung," p. 122. Berlin, 1884.

² "Précis d'Économie Politique," (1888), p. 365.

³ "Taxation: Its Levy and Expenditure," p. 91. Lond. 1863.

⁴ See Mr Hume's Report to the House of Commons as Chairman of the Committee (1851), on the "Property and Income Tax."

large classes) of the country, and that each person having more than a minimum amount of income should contribute in proportion to the share of that value in his possession. The tax would thus become, in the strict sense of the word, a 'property tax,' and each person would be taxed in proportion to his ability, which is measured more accurately and expressed more clearly by the value of the property in his possession under the protection of the State than by any other standard.

"Mr Hume argued, with great force, that such a tax on a man's property would be in every way more simple and more equitable than the taxes which are now assessed on the articles which his family requires or consumes, his expenditure on which bears no direct relation to the amount of his property under the protection of the State. He was of opinion (and many have concurred with him) that the total property of each individual could be determined with sufficient accuracy for all purposes of taxation with less trouble and less vexatious inquisition than is now exercised in ascertaining all the items of that property—his income, house rent, servants, carriages, horses, dogs, armorial bearings, and other items of service, down even to his hair-puff. The evidence given before the Committee established that in America this system of taxation was carried on without difficulty. The property of every person is assessed in that country with as little difficulty, and with as much exactitude, as we assess rentals for the purpose of the house tax."¹

I have thought it best to quote the passage fully, though quite opposed to the principle suggested in the parenthesis—"labour and skill," etc.—of taxing the labour and skill of persons on any similar basis to material wealth, as it seems contrary to all sound principle to directly tax skill and labour in any form as such, for they should be encouraged in all legitimate ways as clearly beneficial to society, by producing every kind of material and personal wealth for use and enjoyment without cost to the State or loss to others. Moreover, no practical means or method exists for measuring or assessing a person's individual skill and labour; and further, in the eye of the law—the law of all free

¹ And, it might have been added, in spite of the difficulties occasioned by the separate systems of assessment, and diverse rules as to exemption, etc., of property, in force in the several States of the Union.—H. L. R.

societies—each person's life, liberty, and rights are regarded as of equal value, and should be thus taxed, if taxed at all.

In a paper read at the Social Science Congress in 1862,¹ Mr Julius Partridge remarked: "The fundamental principle of just taxation is, that all wealth should contribute to the expenses of the State in proportion to its value. A wealth tax should be substituted for the income tax, and its administration should be such as to secure the tax-payer from arbitrary official assessment."

M. A. Billiard² has observed: "Every citizen is bound to contribute to the expenses of the State in proportion to his fortune" (means).

Sir John Sinclair wrote: "Individuals should contribute in proportion to the blessings they enjoy, and the property in the possession of which they are protected. . . . Taxes being properly voluntary contributions from the property of individuals, legally exacted, it is evident, in the first place, that they ought to be in proportion to the property which each individual possesses."³

Ambrose Clement remarked: "Government expenses are, to the individuals of a nation, what the costs of administration of a large firm are to the co-proprietors of the firm (the shareholders), each of these latter being held liable to bear a part of the costs proportionate to the importance of his stake in the concern. It is in the observance or violation of this maxim that one enters upon what I call the question of equality or inequality of taxation."⁴

This much resembles Adam Smith's language: "The subjects of every State ought to contribute towards the support of the Government as nearly as possible in proportion to their respective abilities, that is, in proportion to the revenue they respectively enjoy under the protection of the State. The expense of Government to the individuals of a great nation is

¹ *Trans. Social Science. Economic Section.* Lond. 1862.

² Author of a work, "*De l'Ordre Naturel des Sociétés.*" Paris, 1847. The above quotation is from Larousse's "*Dictionnaire Universel,*" du XIX^{me}. Siècle. 1869-73. Word "Contribuer."

³ "*On the Revenue,*" pp. 54-55. Lond. 1785.

⁴ "*Dictionnaire Générale de la Politique*" (1874), pp. 37-38. Article—"Impôts."

like the expense of management to the joint-tenants of a great estate, who are all obliged to contribute in proportion to their respective interests in the estate. In the observation or neglect of this maxim consists what is called the equality or inequality of taxation.”¹

Smith's terms do not quite accord; the expression, “their respective interests in the estate,” is not quite equivalent to that of “the revenue they respectively enjoy,” etc., though more nearly so to “their respective abilities” (to contribute). Economic conditions were certainly very different when Smith wrote to what they now are, monetary revenues, or earnings, having largely developed.

Lord Althorpe,² speaking on 30th April 1833, said: “Nothing can be more equitable, nothing more just in practice, than that every man should be taxed according to the amount of his property for the protection afforded him by Government.”

In the Correspondence of the late Lord Jeffrey (the eminent Whig peer), edited by Lord Cockburn, is a letter explaining his decided preference for a tax on property to one on income, a sentence from which I will quote as bearing on this subject of proportionality. Lord Jeffrey wrote: “I think it a very reasonable proposition that men should contribute for the support of the Government which protects their interests, as nearly as possible in proportion to the value of the interests protected.”³

Locke's and John Bright's support of this principle are included in the quotations upholding the Cost principle (Canon 4). Further quotations from the great authorities on tax science in support of this principle would only repeat the above opinions in slightly modified terms.

The doctrine of “Disproportional,” “Graduated,” or “Progressive” taxation, though it is only the exact negation of the “Proportional” principle, requires separate notice, for it is now being advocated by politicians hitherto opposed to communism.

¹ “W. of N.” (1811), vol. iii. book v. p. 260. See also Appendix (C).

² Afterwards Earl Spencer.

³ Vol. ii. p. 447.

§ 106.—Disproportional Taxation Unjust and Dangerous

THE best that can be said of this most questionable tax principle, so far as it has been permitted to creep into British fiscal legislation, is, that its originators' and promoters' intentions were possibly benevolent; that, becoming aware how many and glaring were the injustices and scandals provoked by our mixed system of numerous and unequal imposts, heavy taxes being laid on some few generally consumable commodities, regardless of relative value, and others so contrived that their incidence falls on the users instead of the owners of wealth, they sought to remedy these wrongs by imposing increased tax rates on certain higher grades of income, on certain kinds of expenditure above fixed amounts, and on property above certain value left by deceased persons, as instanced in the rates of income tax, of house duties and rates, and of death duties, such increased rates being in themselves unequal and unjust.

But to create further inequalities and wrongs is a peculiar way of remedying injustice. To lightly tax commodities without distinction, *according to their respective values*, and to make *owners* of property, not *users*, ultimately responsible for the taxes thereon, would appear the natural and obvious remedy.

This progressive or graduated tax rate method was known and practised as early as the year 378 B.C., Solon having introduced it in the slave-owning State of Athens, a fitting field, possibly, for its limited application and trial as a system. It appeared also in Florence in the fourteenth, fifteenth, and sixteenth centuries, as Professor Lecky notes in his "Democracy and Liberty" (1896 edition). In England it appeared in the form of graduated poll taxes in the years 1377 to 1380, this last year's tax leading to the insurrection under Wat Tyler; and in the shape of graduated income taxes in the years 1435 and 1450, this last year's tax again culminating in Jack Cade's rebellion. In subsequent years, however, this false principle showed its head from time to time. The tax system of a joint levy of tenths and fifteenths, so long imposed in England, may

perhaps be considered another example of disproportional taxation; but careful investigation will prove that it was merely a rough kind of assessment for preserving just proportion in taxation, and preventing quickly perishable forms of wealth and value from being assessed at the same rate as those of a more permanent nature.

In the United Kingdom, now, the principle of graduation or disproportion is found in the varying rates of the Income Tax, and the abatements allowed by its regulations, in the House Duty, including the progressive rates added in 1890, and in the rates of the Death Duties—a class of taxes representing probably every form of injustice and uneconomic, arbitrary, and troublesome method possible in taxation, and in their most exaggerated type. But the disproportional principle obtained its most decided recognition when the Estate Duty was imposed in 1889, though, indeed, its continuance (by a further violation of tax principle) was “limited” to a period of *seven years*.¹ The new Estate Duty of 1894 applies the inequitable principle even more widely. Each progressive step in tax-rating means a fresh injustice created, further frauds provoked or invited, and additional complexity caused in fiscal administration; but it means also, which is a far graver matter, a further downward slip into the gulf of Communism.

M'Culloch, alluding to the method, remarked: “This principle is not more seductive than unjust and dangerous. . . . Government in such case has stepped out of its proper province, and has assessed the tax, not for the legitimate purpose of meeting the public exigencies by appropriating a certain proportion of the revenue of its subjects, but that it might vary this proportion according to the presumed amount of the latter—that is, that it might depress one class and elevate another. A proceeding of this sort would be destructive of all sound principles.” Referring to the inequalities in taxation caused by the Income Tax and House Tax exemptions and abatements, he observed: “They have more the character of measures intended to confiscate a portion of the property of the latter” (the wealthy) “for the benefit of the exempted classes, than of equitable contribu-

¹ “Fixed for” is the correct way of describing this fiscal act.

tion to the wants of the public. The oppressiveness of a system . . . depends on the magnitude of the exclusive or peculiar burden falling on the over-taxed party; but however small the principle which it involves, it is radically vicious, and it is to be feared, should such partial taxes be continued, that they will be gradually, and perhaps not very slowly, extended till the mischiefs of which they will not fail to be productive have made their suicidal character manifest to every one." ¹ This was written before voting power, independent of tax contribution, was conferred on the masses.

Again he writes: "Even if taxes on income were otherwise most unexceptionable, the adoption of the principle of graduation would make them about the very worst that could be devised. The moment you abandon, in the framing of such taxes, the cardinal principle of exacting from all individuals the same proportion of their income or of their property, you are at sea without rudder or compass, and there is no amount of injustice and folly you may not commit." ²

M. de Parieu, referring to Graduated taxation, wrote: "It is a theory that leads to the most terrible injustice in a State . . . a slippery decline, down which each step becomes more dangerous and irretrievable; the theory of 'Equality of Sacrifice' (under which he classes it) appears placed on the irresistible slope that leads to a social dead-level as the type of perfection." ³ Commenting on Montesquieu's argument in favour of graduated taxation, "that the largeness of the tax on the superfluity of wealth would check such superfluity," he considered that very argument a sufficient condemnation of the principle.

Leroy-Beaulieu, writing against the principle, observed: "The only reason produced in its favour is that it imposes on subjects an equality of sacrifice, and that large or moderate incomes can bear more easily an addition of a tenth or a fifth than incomes of lower degree. Progressive taxation has only this argument, more or less specious, to rely on—it is not supported by any

¹ M'Culloch, "Treatise on Taxation" (1863); also his edition of "The Wealth of Nations," Note, p. 619. Edin. 1863.

² See above treatise, and quoted by Professor Adolf Held in his "Der Einkommensteuer," p. 141. Bonn, 1872.

³ "Traité des Impôts" (1866), pp. 245-46, etc.

equitable principle, it offers most grave practical difficulties, and it contains the germ of undoubted spoliation."¹ He showed, too, that in the Swiss Canton Vaud, where it had been applied as a tax principle, capital had been put to flight.

M. Baudrillart, the French economist, wrote: "Progressive taxation deals with equality in a way communists, but not economists, have generally understood the expression; in other words, it is not equality that is effected, it is a dragging-down to a common level."²

Even M. Proudhon, the Socialist, has denounced the principle, and described it as a tax whose mother is envy and whose daughter is oppression.

Mr Gladstone, addressing his party respecting this principle prior to its enactment, remarked: "I have never been able to observe any absolute rule by means of which graduation is to be kept within bounds. It is clear that it is capable of being carried to a point at which graduation would become confiscation, and I should be glad if we could be told whether there is any fixed rule which would apply to the custodians of property and to proprietary interests for the purpose of distinguishing what is moderate and just from what is immoderate and unjust."

M. Thiers has severely criticised the principle. After laying it down as a self-evident maxim that every citizen should contribute to the national revenue in proportion to what he earned, or to what he possessed (two very different propositions), he referred to graduation in tax rates and the objections to the principle thus: "If you once begin you have no logical limit; you are on an inclined plane, and, once started, cannot stop yourself." As a principle he said it was unquestionable robbery. "In proportional taxation you had a guiding principle, but graduated taxation was an odious injustice, a revolting exercise of arbitrary power. . . . To tax property in exorbitant proportions would only be to add a new iniquity as great as that which was abolished in 1789." Upholding as a principle strict proportionality, he observed: "To abandon this would be as if a merchant were to say to his customers: 'You are richer than

¹ "Précis d'Économie Politique," p. 363. Paris, 1888.

² "Manual d'Économie Politique," p. 469. Paris, 1857.

your neighbours, and must therefore pay more for the same goods.' It would only lead to endless confusion, and open out boundless, incalculable possibilities of endless confusion and arbitrary imposition."¹

Mr Goschen, from his remarks in the House of Commons, at first appeared opposed to the principle theoretically, though he practically endorsed it by graduating the House Duty in its lower stages, and later on even imposed a graduated Estate Duty a distinctly new departure in fiscal legislation of the progressive type, though its operation was "limited" (as he said) to a period of *seven years*.² But in the House (8th May 1894), in reference to the Radical Government's "New Estate Duty" proposals in the 1894-95 Budget, or Finance Bill, he said: "When you once embark on this system of graduation there are no stages, no landmarks, nothing whatever to guide you. There is no principle of justice, no principle where you can say you ought to stop, no principle of prudence, *no principle whatever!* It is because there is an absence of any landmarks and any standard that the Continental Socialists have hitherto favoured the system."

Sir Louis Mallet (among Liberals an authority on economics) says of this principle: "Even Mr Mill, who favours some scheme of limiting inheritances, observes that such a tax as applied to incomes 'is a tax on industry and economy, and imposes a penalty on people for having worked harder and saved more than their neighbours.' It is 'partial taxation,' which is a mild form of robbery. . . . If the subject has not attracted much attention on the part of English economists, it is because, fortunately, this country has until lately enjoyed a comparative immunity from the economic heresies which have sometimes threatened the foundations of society on the Continent, but it is needless to say that the system in question is altogether at variance with the four rules of Adam Smith. . . . The aim of Governments should always be to encourage the motives which promote industry and economy, and there can be no more

¹ Quoted in the Finance Bill debate in the House of Commons, 8th May 1894. See also M. Thiers, "La Propriété," book iv. chaps. ii. iii.

² Party exigencies possibly the cause.

disastrous folly than to regard wealth, as the commercial classes were regarded in the Middle Ages, merely as a fit subject for fiscal rapacity." ¹

He further writes (p. 43 of above-quoted essay): "If the naked principle of graduation be introduced into our fiscal system, its uncertainty and infinite liability to abuse would dangerously impair the sense of security which is essential to prosperous enterprise."

Mr Fawcett, in his "Manual of Political Economy," strenuously opposed this principle on much the same grounds, and showed that the effect of thus specially taxing capital was to diminish the funds available for paying wages, and thus to tax labour.

Mr W. L. Sargant wrote of the principle: "Graduation is the filching from rich men a payment for that which they do not receive; it is a demand on rich men to pay a shilling for the loaf which men of moderate means are to get for ninepence. Graduation, then, is not Socialism or confiscation, but injustice." ²

M. Block, chief editor of the "Dictionnaire Générale de la Politique," exposed the grave injustice of progressive taxation, denouncing it as simple confiscation, purely arbitrary. ³

David A. Wells, as far as he has expressed his opinions concerning the regressive rates of the British Income Tax resulting from granting abatements and allowances, is clearly opposed to the graduation of tax rates; whilst Francis A. Walker, noticing the differences of opinion respecting it, observed: "Both sides agree that in progressive taxation there is danger, under a popular impulse, of its being carried so far as to violate all the equities of contribution, and seriously to shock the habits of saving and acquiring property." ⁴

Walker has been claimed by some as favouring the principle, it is best, therefore, to quote the passages in his "Political

¹ See his essay on "The National Income and Taxation" (Cobden Club Series, p. 37, etc.), quoted by Mr Goschen in the House of Commons in the debate, 8th May 1894, on the graduated new estate duty.

² "An Undiscriminating Income Tax Re-considered," Article in *Statistical Society's Journal*, 1862, by W. L. Sargant, author of the "Science of Social Opulence," "Social Innovators," etc.

³ "Dictionnaire Générale de la Politique," Footnote, p. 40. Article—"Impôts." Paris, 1874.

⁴ "Political Economy" (1883), p. 449.

Economy" relied on: "A reason for progressivity in taxation, which the economist and the political philosopher may legitimately recognise, is the undoubted fact that the differences of property and income are due in no small degree to the failure of the State in its duty of protecting men against violence and fraud." And he concludes: "Were the highest human wisdom, with perfect disinterestedness, to frame a scheme of taxation, I must believe that the progressive principle would in some degree be admitted."¹

The plain inference to be drawn from these remarks would seem to be—that as cases of violence and fraud will occur, some disproportionate rates of tax should be imposed on particular classes, increasing with the amount of their wealth or income, which wealth or income may or may not have been derived by fraudulent or violent means! One would be inclined to think the proper remedy would rather be—to establish better laws to protect those suffering from frauds and violence, or to administer the existing laws more impartially and thoroughly, as we see being done of late years by successive British ministries.

The criticism applied by the Hon. D. A. Wells to protective, etc., rates of Customs Duties (quoted p. 221) is, as I have remarked, equally applicable to the question of graduated tax rates, for taxation, instead of being restricted to its legitimate object, its original constitutional purpose—the levy of revenue to meet State outlay for general protection and advantage—is made the means of redressing social inequalities in material wealth, income, and productive power, necessarily existing in all communities and groups of individuals, and from all sorts of causes.

Adam Smith has also been claimed as a supporter of the graduated tax rate principle, solely on account of a sentence occurring in his remarks on the taxation of dwelling-house rents. Having stated that the incidence of such taxes would usually fall heaviest on the rich, he continued: "In this sort of inequality there would not perhaps be anything very unreasonable. It is not very unreasonable that the rich should contribute to the public expense, not only in proportion

¹ "Political Economy" (1883), p. 453.

to their revenue, but something more than in that proportion.”¹

This is the sentence relied on, notwithstanding his previous support of proportional taxation, even though it led to over-taxing the rich in this respect of house rent! The fact is, Adam Smith (like his predecessor, Sir William Petty, and his contemporary, Lord Lauderdale) regarded dwelling-houses, compared with farm buildings, manufactories, shops, etc., as unproductive capital, taxed, nevertheless, at the same rate, and considered landlords could not reasonably complain of this, for, as he showed later on (p. 364), the rich escaped much taxation that fell on the poor; so that all Smith contended for in the passage quoted was really strict proportionality in taxation.

John Stuart Mill also has been claimed as an advocate of disproportional taxation, the truth being that he supported the principle of tax rate graduation to a very limited extent only, as he clearly perceived its dangerous tendencies, and wished to confine it to Death Duties, not to apply it to capital or income in their ordinary meaning; but it is not easy to see how this could be done, as the property of deceased persons *was* distinctly *capital* in its relation to them, and, to the beneficiaries coming into possession, it *is* as clearly *income primarily*, to go to capital or revenue as they alone may decide.

He remarked: “The principle of graduation, as it has been called—that is, the levying a higher percentage on larger sums—though its application to general taxation would be a violation of first principles, is quite unobjectionable as applied to legacies and inheritances. I conceive inheritances and legacies exceeding a certain amount to be a highly proper subject of taxation, and that the revenue from them should be as great as it can be made without giving rise to evasion.”² He did not explain, however, what this certain excessive amount was, and the obvious injustice of allowing an overwhelming majority of taxpayers to impose abnormal and undue tax charges on the very small minority contributing each year to the graduated Death Duties, such minority being largely composed of widows,

¹ “Wealth of Nations,” vol. iii., p. 286. 1811 Edition.

² “Principles of Political Economy,” vol. ii. p. 402. Lond. 1865.

orphans, and religious and charitable institutions, seems quite to have escaped his notice, for it cannot be too clearly understood that it is the living, not the dead, whose income and property is thus confiscated by the graduated tax rates. The reflection that there was no fixed standard for governing and controlling this arbitrary taxation of the few by the many might have caused him, one would have thought, to distrust the principle. The particular class thus specially taxed is not exempted from any of the general taxation. Special taxes on deceased persons' estates appear no more justifiable than special taxes on the living; their imposition entails many serious legal charges also on the estates, and the tax cannot be defended on the ground of corresponding cost to Government or the nation.

Mill's plan of abating £50 (an existence minimum) from all taxable incomes above that sum was a form of the "gradual" principle presently to be noticed.¹

"Regressive" taxation, referred to by Lorenz von Stein, in relation to "progressive" taxation,² is somewhat similar; it really means reductions of the usual tax rate applied to the lower end of the scale of incomes or property values taxable, examples of which are found in the reduced rates of the British House Duty and Income Tax below the ordinary tax rate.

When editor of *The Journal des Économistes*, M. J. Garnier proposed a plan for limiting the evils resulting from progressive tax rates rising with the pronounced steps Communists usually advocate; his method was an ascending sliding scale, which he termed "gradational taxation." The increasing incidence of a tax would thus be less felt at each step, but more trouble would result in assessments, aggregation of wealth or income would still be requisite, and the extra revenue derived would be quite insignificant compared with the official labour entailed.

Many other authorities condemning Progressive Taxation might be cited, but the eminent statesmen, economists, and writers on taxation quoted may suffice, seeing how unreservedly they denounce either the principle or its tendency, whilst those

¹ "Principles," etc., vol. ii. § 3.

² "Lehrbuch der Finanzwissenschaft," part ii. p. 433.—"Steuerfusz."

favouring it do so with important reservations. The principle of proportional taxation fairly translated into practice, and applied to all forms of accumulated wealth, should make it needless to resort to such unworthy expedients as progressive, regressive, or even gradational rates of taxation.

A danger is, that statesmen becoming impatient at the wrongs imposed on many classes by our crude methods of public and private taxation, and anxious promptly and summarily to redress them, may be tempted to accept this empirical method as the quickest way to attain their object—tax reform—being unaware, or imperfectly aware, of its fatal tendencies, and the direct incentive given by it to political dishonesty.

The proportional and disproportional systems cannot reasonably exist together; one practically condemns the other. Once abandon the principle of proportionality and the science of taxation lapses into the condition of a ship without anchor, chart, compass, or landmarks; the vessel of State finance is then simply left to the chances and varying forces of popular excitement, and the self-interest of the masses, and before long must be carried into the rapids of Communism, and wrecked among the shoals and quicksands of anarchy.¹ Only teach the majority of voters that under the name of "taxation" they can with impunity rob the classes better off than themselves, and further, can apply the spoil to the special advantage of their own class interests, and we shall soon see a rapid exodus of all transferable wealth from our land, for the appetite for spoliation grows with what it feeds upon, and the masses are not likely to be restrained by considerations of the limited period during which they could continue such plunder, or of the certain injury inflicted on their own permanent interests by the dispersion of capital, for, in our northern clime, land without capital is of little use, and even now capital is fast disappearing from arable lands from undue taxation, general, local, and private, and, owing to the frequency of labour strikes, other forms of capital seem likely to do so before long.

Countless are the causes ever at work diffusing the wealth of the rich among the poor, such as the extravagance and care-

¹ See also *ante*, § 93, p. 182.

lessness of the former, the excess prices (irrespective of cost) charged them, division of property after death, besides the usual attendant of increased wealth, increased cost in wages, etc., for maintaining and preserving it; nor must we forget the generous impulses of wealth-owners often urging them to do as much local or general good with it as possible, and by employing it as capital in useful enterprises in which unemployed labour can co-operate.

It may be argued that, as goods and services are sometimes sold at more moderate prices to the poor than to the well-to-do classes, Government might do so in respect of its services and tax charges. But public administration is a *trust*, in which justice is the guiding principle, whereas private beneficence is answerable to itself only, and is often much mistaken and misapplied; moreover, no public organisation exists for ascertaining the relative means and obligations of subjects with a view to moderating the State's claims on certain classes or individuals.

A specious kind of argument has sometimes been used in support of disproportional taxation; it is urged that a tax reducing the standard of comfort usual in a wage-paid labourer's family, would, in a wealthier man's *ménage*, be merely equivalent to putting down a footman, a horse or carriage, and therefore a higher tax rate should fall on the latter. But the sense of hardship and loss inflicted by the tax is really the same in each case. To be unable to maintain a carriage reduces the one taxpayer's comfort below the standard of his class or circle quite as much as the loss of certain comforts, say an extra pipe or two of tobacco, affects the other's habit of life, and reduces it below the usual standard of his class. When increasing taxation encroaches on their usual subsistence, the richer man suffers in his necessary economies as much as the other does; and when absolute poverty at last compels both to seek poor relief, the once well-to-do man suffers the sense of degradation certainly no less acutely than the poorer man.

Taxation proportioned to the wealth of a subject is equitable provided the tax rate is equal and universal; of course Government cannot fitly enter into questions of the tax-payers' respective liabilities. To impose higher tax rates, then, on some arbitrary scale affecting certain classes only is simply confisca-

tion of those classes' means. Presuming that reasonable justice is preserved in assessing taxation, and applying it for the general welfare, a family man, for instance, paying no more for the personal protection of himself and family than a bachelor does for himself only, a proportional tax rate on the property of both should meet every requirement of justice between them and others in the same tax area. The man paying £1 on his £100 worth of accumulated material wealth, and the man paying £1000 on his £100,000 of such wealth would be equitably taxed, even though the protection of the latter and his property cost the State very much less than a thousand times the tax paid by the poorer man.

As I have perhaps sufficiently shown, there are many constant influences at work adjusting differences in the social needs and means of individuals, and making recourse to the empiric method of varying taxes and tax rates, or disproportional taxation, quite unnecessary. Governments and public taxes can scarcely be considered fitting instruments for bringing the wealth or purchasing power of subjects into uniformity.

**§ 107.—(Canon 6) General Exemption from Tax Charge
for Government Protection of the Individual Life
and Personal Rights of Members of the Com-
munity (as distinct from their Property Rights)**

THE preceding five cardinal tax principles have represented so many different aspects of the wide principle of equality, each requiring distinct treatment to show its particular bearing and influence on the problem of the equitable taxation of all in the same area of Government cost and benefit, two of them specially asserting the principle of Universality of Tax Liability of persons and tax objects, and the injustice of exempting from the general taxation particular classes or kinds of persons and property.

To secure, however, complete equality in taxation, two general exemptions are found necessary, the first of which forms the substance of this canon, hitherto unnoticed as a principle, though usually found in practical operation.

When referring to certain heads of Sociology connected with

taxation (pp. 6-7), I remarked that a State with free institutions like ours regards the lives and liberties of its subjects as of equal value before its tribunals, the very establishment of such a society or community implying certain equal personal and social rights and obligations ; and as the actual cost incurred by Government in safeguarding each subject's life and liberty cannot possibly be determined with reference to any given period of time, it may practically be assumed or inferred that an equal charge for each subject would roughly meet the equity of the case, or, taking an average of families, an equal charge for each family. Jeremy Bentham, M. De Parieu, and several other distinguished Sociologists and Economists have inclined to this view, however widely differing, concerning the principle on which *property* should contribute for State protection.

But if each person or family has to bear an equal share of the cost of this personal protection, what practical advantage is to be gained by making any charge at all? The various State institutions and services employed in defending subjects' rights in property are readily and naturally extended to the protection of persons and personal rights ; in point of fact these organisations serve both purposes, so intimately are they associated as rights.

And subjects with little or no property nevertheless contribute in some form, even though not directly assessed, for such is the effect of the diffusion of tax incidence into all prices and values that the income and expenditure of all persons and classes become charged with some amount of indirect taxation, certainly sufficient to justify this general exemption from any tax charge for personal protection ; and it will further be remembered that all subjects are held equally liable to give their services and aid to the State or local power in cases of emergency. In actual fiscal administration, therefore, no charge for personal protection is usually made.

I shall presently show how this, and the general exemption next noticed, act as compensating influences in equalising the burden of taxation on the poorer classes.

§ 108.—(Canon 7) General Exemption from Tax Charge of the "Existence Minimum," and its Logical Outcome

THE "exemption of the existence minimum" is a principle that has always asserted itself in the fiscal systems of ethical economists. We may trace it in Adam Smith, Jeremy Bentham, and Sismondi, as well as in J. S. Mill and the more recent writers on public finance; especially is it a favoured dogma with the Austrian and German economists, philosophic as well as communistic, some of whom contrive to use the principle as an argument by which to support their theories of "progressive taxation," whilst others admit it is inconsistent with other tax principles, and can only be justified on "social political grounds"—expediency, in other words.¹ Mill considered the principle should apply to the incomes of rich and poor alike, and that the deduction from incomes in the United Kingdom should be about £50 a family.

The latest assertion of the principle as a means of arriving at taxable ability appears in Sir R. Giffen's evidence before the Royal Commission on the "Financial Relations between Great Britain and Ireland," referred to in the chairman's, the late Right Hon. C. E. Childers' draft final Report,² and the Commissioners all but unanimously endorse by their Reports some such taxable capacity thus evolved from the Existence Minimum Exemption, though they for the most part think the deduction of £12 a head insufficient as a means of arriving at the true relative taxable capacity of rich and poor in the two countries.

Taxable capacity, however, depends on other conditions besides cost of subsistence; Sismondi considered that the cost of earning a living was a needful deduction in arriving at a net taxable income, and certainly expense in preserving income when earning power fails is quite as necessary a set-off, hence, insurance premiums have been to some extent exempted in legislative measures here and in other countries, indeed, it is

¹ R. Meyer and A. Wagner. Meyer's "Principien," etc., pp. 291-93.

² Parl. Paper C. 8262 of 1896, pp. 181-82, ¶¶ 224-32.

difficult to see where any line can be drawn in respect of useful and necessary expense and consumption, for a certain amount of enjoyment and relaxation is really needful for the healthy existence of young and old alike, and stimulants become a positive need in old age, and particular conditions of climate and surroundings, and in certain kinds of occupation.¹

The difficulty lies in applying this exemption principle. The true economic minimum is ever changing as the standard of life or social comfort varies; it differs with different localities, it varies in the bachelor's and the married man's lives and households, and in town and country abodes, and to fix any average sum for exemption from taxation would certainly produce striking cases of injustice whether reckoned per head or per family. The economic or actual cost of needful expenses per head or per family *seems* the natural principle of exemption, but who is to decide what items of expense are or are not necessary in the family budget?

In our fiscal system the authorities have tried in an indirect, and far from satisfactory way to overcome the difficulty of applying the principle; they do not follow Mill's suggestion to directly exempt a certain sum from rich and poor alike, but they exempt incomes, estates, and some expenditures, *under certain amounts*, taxing all above such limits without regard to the various claims on the respective tax-payers' incomes. Thus, in *direct* taxation incomes under £160, estates of £100 and under, and house-rentals under £20 are exempted from Income Tax, Estate Duty, and House Tax; and in *indirect* taxation there is a general exemption of many of the so-called "necessaries" of life, but also of nearly all the so-called "luxuries," whilst on spirits, wine, beer, tobacco, tea, coffee, cocoa (whatever their quality and price), and some few other commodities and services required by many millions of temperate, and some intemperate, users, is concentrated by means of heavy tax rates and charges, more than £65,000,000 out of a total *tax revenue* of some £98,000,000, *i.e.* about 66.33 %.²

¹ Compare also Dr Hermann Schmidt's Monograph "Die Steuerfreiheit des Existenzminimums," pp. 4-5, etc. Leipzig, 1877.

² See Revenue Returns 1896-97, including licences on manufacture and sale of above commodities. The total taxation on commodities and services includes the

Besides this, the necessities of land and house accommodation are excessively taxed by a combination of Land and House taxes, of rates assessed on land and house rental expenditure, and a Land Tenure system enabling landlords or land-owners, under certain conditions, to tax occupiers of lands, mines, houses, etc., with little or no restraint but that imposed by their own consciences. It is easy to see that under these fiscal methods many tax-payers with incomes and expenditures above the minimum of exemption, and with extensive claims on their resources, must suffer extreme pressure from these severe indirect and direct tax rates, public and private.

The only equitable method of remedying this unequal tax pressure on certain individuals and classes seems to be to substitute direct for indirect taxation, to include as tax objects all articles of production (luxuries and necessities), to make value the sole tax basis (thereby enormously reducing the general tax rate), to exclude all income and expenditure, *as such*, from taxation, and then to fix an "exemption minimum" of *property*, instead of income or expense.

By assessing the tax on the average value of the property held at the close of each day (a by no means difficult method), all daily income and expenditure or consumption values would be excluded from tax charge, and the only just and practical exemption of the true existence minimum could then be applied, that of property. These results could only be attained by successive steps, pre-arranged to some extent; but this is a matter for future explanation should occasion offer.

§ 109.—Compensatory Influences of these two General Exemptions in Equalising Tax Incidence

THOUGH no definite statistics exist on the subject, it is a recognised fact, I believe, that the average number of members in the families of the wage-paid and manual-labour classes in the

local government subventions, most of the stamp revenues, and *the clear profit from postal, telegraph, and parcel services*, which profit is distinctly taxation. A proportion of the death duties, and of income tax on trade profits, is also derived from commodities, but cannot be stated, the amounts being involved with other incomes and profits.

United Kingdom exceeds that found in the families of the well-to-do and other classes. No tax in the form of a general poll tax being levied in this Kingdom to defray the cost of personal protection of subjects by local and central government agencies, it is evident that those with larger families derive most advantage from such public agencies; the larger the number in a tax-payer's family, including parents, children, and dependent relatives only, the more personal protection on the average would such family need and receive from Government without being specially taxed for it.¹

It may be objected that tax-payers with wives and families enjoy, under this system, undue advantages over bachelors and others needing State protection for themselves only, and that the case of these last should be separately considered. But there are certain set-offs; the property of wives and infants with separate estates is subject to taxation, and is partly applicable to meet the cost of their personal protection. From the nature of the case they cannot and do not, as subjects, derive as many and as complete personal advantages and privileges from Government institutions as do male adult subjects with no legal disabilities and disqualifications; and further, husbands and fathers are to some extent held legally responsible for their wives' and infants' acts and defaults.

It is, indeed, sometimes argued that bachelors should be specially taxed, forgetting that the State, in their case, protects the life and liberty of one person only; bachelor tax-payers, however, can by contracting marriage, with all its consequences, obtain without any special tax charge additional protection from the Government for the lives and liberty of their wives and children. A kind of premium is thus offered for their marriage, and it applies, of course, to tax-paying spinsters, widows, and widowers. Wage-paid earners with families certainly derive distinct advantage from there being no special personal or poll taxes for their personal protection and liberty.

And the principle of the "Exemption of the Existence Minimum" carried to its logical and practical conclusion, the

¹ Domestic servants bearing no taxation, and having independent incomes, with shelter, food, etc., do not enter into either side of this comparison,

exemption of the daily income, expenditure, and consumption of all, and of personal belongings below a certain total value, would have even wider effect by reducing the taxation of the poorer classes and others with numerous claims on their resources, provided there was universality and equality in the taxation of property and commodities, of luxuries as well as necessities, and that exchangeable value was the basis of assessment. The theoretic tax basis would then be the exchangeable value of property at the close of each day, when all income, expenditure, and consumption had ceased, and this theory could easily be converted into working practice. The poorer classes would soon find this principle of exempting property below a certain fixed minimum value a distinct advantage in their favour as compared with the richer classes' assessments.

This seems the only equitable way of applying this widely recognised principle of the "Exemption of the Existence Minimum," and is to some extent recognised in processes for recovery of debts by public and private creditors. It would certainly greatly conduce to the interests of the poorer classes and of others with extensive claims on their means.

§ 110.—Of Equality in Taxation, Generally

SUFFICIENT proof has now, perhaps, been given that Equality or Equity in taxation must be presented under different aspects, each needing distinct treatment as a constitutional principle. Before noticing the Administrative Tax Maxims subordinate to them, I will quote a few more opinions of well-known fiscal authorities supporting this compound principle of "Tax Equality."

Sir John Sinclair remarked: "Upon looking closely into the question of equity in taxation, it will be found to be the basis of that security of property on which the fabric of society rests. If all property is taxed at a uniform rate, the exchangeable value of different kinds of property remains unaltered, and the owners remain in the enjoyment of its undisturbed possession, as they know that whether the rate of taxation is lowered or raised to supply the exigencies of the country, it will affect all property

in the same degree. The reverse happens when the taxation is not equitable. . . . Equality is particularly to be attended to in taxation.”¹

Sinclair also quotes Sir Robert Walpole's remarks when condemning the Land Tax: “As to the manner of raising taxes upon the people, it is a certain maxim that that tax which is the most equal and the most general is the most just and the least burdensome. When every man contributes a small share, a great sum may be raised for the public service without any man being sensible what he pays; whereas a small sum raised upon a few lies heavy upon each particular man, and is the more grievous in that it is unjust. . . . There is no tax that ever was laid upon the people of this nation that is more unjust or unequal than the Land Tax.”²

Joseph Hume, in his Minority Report of the Property and Income Tax Committee of 1851, wrote: “A tax exclusively on the rent of land, on the rent of houses, on wages, or on any single class of property, as well as a general tax on all properties in no constant proportion to the value, depresses prices and alters exchangeable values. It produces a depreciation of property, and is, in fact, as far as the inequality goes, a confiscation. A partial, an unequal, or an uncertain tax unsettles the security of property and paralyses industry. If under the pretence of convenience in collection, or of difficulty in assessing the tax equitably, 3% is taken from the interest of capital in one form, 14% from the interest of capital in another, and nothing at all from the interest of capital in a third form, it will diffuse a general sense of insecurity in the minds of all persons possessing property, as no one can foresee how far a system which violates the principle of equitable taxation may be carried.”

Dr William Farr wrote: “The value of property is the only infallible index to average profits, and is, in all cases, the true basis of equitable taxation. . . . I have endeavoured to show that the principle of an equitable tax—by an equal rate on the property of every subject of Her Majesty—is a fundamental principle of the old English law. I infer that the principle can never be safely

¹ “On the Public Revenue” (1785), pp. 57, etc.

² Quoted in Sinclair's “On the Public Revenue,” vol. ii. p. 272.

disregarded in any country, and least of all in England, where the Minister of Finance was formerly, by a significant arrangement, a Minister of Justice, and as he is now, the pillar on which the public credit rests, also the designated administrator and great practical teacher of equity in the common business of life. . . . A just distribution of the taxation of the country over all classes, and over all the property of the country—bearing, like the pressure of the atmosphere, equally on all sides—if firmly established, will present an irresistible barrier to anarchical inroads on the rents of land or the interest of money, and while the industry of the country is left free, property, on the firm ground of the public faith, will rest on an everlasting foundation.”¹

The French financiers and statesmen, Messieurs Boisguillebert and Vauban, record the fact that it was the injustice of the taxation, not the amount of it, that caused the French Revolution.

Adam Smith dismisses the consideration of many injustices arising from relatively unequal exemptions, tax rates, and incidence of the various imposts included in the English tax system with the remark: “Every tax, it must be observed once for all, which falls finally upon one only of the three sorts of revenue above mentioned” (rent, profit, and wages) “is necessarily unequal, in so far as it does not affect the other two. In the following examination of different taxes, I shall seldom take much further notice of this sort of inequality, but shall, in most cases, confine my observations to that inequality which is occasioned by a particular tax falling unequally upon that particular sort of private revenue which is affected by it.”² Much inequality in taxation was thus left unnoticed in his great work.

Before considering the minor tax maxims, I must again freely admit that absolute equality in taxation is unattainable, but I venture to submit that the recognition of this fact should not absolve legislators or public administrators from seeking as close an approach to it as possible, it being the most important

¹ *Statistical Society's Journal* (1853), pp. 9-16-19. Article—“The Equitable Taxation of Property,” etc.

² “Wealth of Nations” (1811 Edition), vol. iii. p. 261. See also Appendix C hereof, p. 284.

element in the science of government and its practical application to every branch of public administration, and, most distinctly of all, to exacting taxes for defraying the cost of the public services.

The Administrative Maxims of Taxation

§ III—(Maxim 1) Other Advantages being Equal, a Sole Direct Tax indicated as the Most Economic Method of Raising Taxation

IN relation to the other maxims of Adam Smith, his fourth maxim may thus be expressed in its most concrete form: Between two tax methods equally well devised as regards justice of incidence and other considerations, except that of economy of cost, the method most favouring economy from both the taxpayer's and the taxpayer's points of view must obviously be that most advisable to adopt.

A *sole tax*, general and comprehensive enough in its incidence, and capable of practical assessment, represents complete economic method, for a variety of taxes naturally entails varied laws, regulations, and assessment machinery, and a larger staff of officials to work them, factors certainly not conducive to administrative economy. In the history of taxation it seems often to have suggested itself to statesmen as the natural principle and method.¹

A *direct tax* also has been found in practice more economical in collection than any indirect tax. Such is the experience of many European nations. In our own country it has been instanced in the low per centage cost of collecting the Income Tax as compared with that of raising the Customs and Excise. The principle of the economy of direct taxes will be found to hold good in all cases where the system is sufficiently extensive in its application, and the revenue obtained large, though, even

¹ The Athenian tax of Solon, the Impôt Unique of France, and the tenths and fifteenths tax of England are some examples, for the early English Customs were also proportional taxes paid in kind and quality of imports.

when yielding but little revenue, it will frequently compare favourably, as regards cost, with indirect taxation.

It may fairly be assumed, therefore, that *a sole direct tax would be the most economic form of taxation.*

§ 112.—(Maxim 2) Taxation should not interfere with Industrial Processes, Exchanges, or other Contrivances for Facilitating the Ends and Purposes of Mankind

THIS maxim was first authoritatively advocated and put in practical force by M. Turgot in the fiscal policy of France. M. Voltaire also supported the principle, putting it in a more positive form, viz., The best way of raising taxes is that which most facilitates labour and trade.¹ Practical business men, manufacturers, farmers, traders, bankers, railway directors, etc., affirm that this policy is best carried out by governments not interfering by means of taxes and other forms of intervention with their methods and processes and instruments and forms for conducting their businesses.

Adam Smith, and most later political economists, have supported this principle with more or less breadth of application. In the year 1872 the maxim was stated more broadly than usual by a Mr C. E. Macqueen, thus: "The essential test of sound taxation is that it shall leave consumption, production, sale, and exchange as free as the Creator intended them to be."²

Carried out to its natural logical conclusion, the principle extends to all social actions and transactions with wealth-objects and values, to the transit and conveyance of persons as well as of goods, and to all business forms and documents. Examining more closely the tendency of this principle, it distinctly leads to the inference that taxation should not be assessed and imposed on wealth and value in its processes of formation, growth, movement, or activity, but in its state of balance, equilibrium, or rest.

¹ Quoted in Larousse's "Dictionnaire Universel, du XIX. Siècle." Article—"Impôts." Paris, 1873.

² *Trans. Social Science* (1872), p. 383.

The many evils attending fiscal interference with industrial or business methods, processes, and exchanges have sufficiently been noticed under the head of "Exchange and Circulation of Wealth and Value," pp. 98-104, and further examples will be found in "The British Tax-payers' Wrongs," pp. 17-23, etc.

I will end this section with a brief quotation from one of the greatest financial authorities of his day, Sir Henry Parnell,¹ for many years Secretary of the Treasury, who did much to relieve trade and commerce from the fiscal bonds besetting them. He wrote: "We have only to remove the impediments with which bad laws still clog the activity and energy of individuals to render productive industry still more efficient than heretofore in creating new wealth."

**§ 113.—(Maxim 3) Tax Laws, Regulations, and Rates
should be as Definite, Simple, and Intelligible
as possible to all concerned**

WITH regard to liability to taxation, to valuation and assessment, to tax rate, period for which due, time when payable, amount payable, etc., there should be no obscurity or room for dispute on the part of either the taxing power or the tax or rate-payers. Precision in such matters is all-important, and the legality of a tax charge should be unquestionable.

So evidently valuable is some administrative rule of the kind that Adam Smith considered it sufficiently important as a tax principle to come next after "Equality," terming it "Certainty."² Professor Bastable even regards it as of constitutional importance.³ I have preferred to follow Dr A. Wagner in treating it as one of the administrative principles only, though, no doubt, by intensifying their ordinary actual importance, each one of these maxims may be made to assume the character of a vital tax principle, essential for securing a subject's constitutional rights.

The remarkable way in which this maxim is violated in

¹ Afterwards Lord Congleton. "Financial Reform" (4th Edition). Lond. 1832.

² See Appendix (C), Maxim 2, "Wealth of Nations."

³ See his "Public Finance" (1895)—"Canons of Taxation."

British tax legislation is most noticeable in the Death Duties regulations; their extremely obscure and complicated nature has been admirably exposed in the House of Commons during the debates on the Finance Bill, 1894, and confirmed by the multitude of inquiries and legal doubts and differences raised in administering these fiscal laws. Lawyers could testify to this, though they probably find some elements of consolation; the tax is essentially the "lawyers' tax," and it is a distinguished constitutional lawyer and statesman who has done most to establish and extend the complicated rules governing this very questionable fiscal expedient, productive though it now is. It should be stated, however, that other eminent lawyers opposed the principles of the New Estate Duty Bill.

§ 114.—(Maxim 4) Tax Laws, Regulations, and Rates should not invite or facilitate Fraud and Evasion

PROHIBITIVE and excessive tax rates, differential and graduated tax rates, total and partial exemptions, abatements, and allowances from the usual tax rates, and different methods of assessing and valuing property (which operate in the same way as differences in tax rates), are found by the experience of all civilised nations to favour frauds on, and misrepresentations to, the fiscal authorities. I will give one instance in our Income Tax rates: £400 incomes get abatement of £160 in assessment, but £401 incomes only get £100 deducted, forfeiting £2, 0s. 8d. tax for £1 extra income; £501 incomes pay the full tax rate, but £500 incomes are assessed at £400 only, thus the former forfeit £3, 7s. 4d. for their £1 extra income. Clearly these tax rates tend to concealment of income.¹

And, further, distinctions with regard to the taxability or exemption of necessities, luxuries, and other particular classes of wealth, income, or expense are found also to provoke not only fraudulent evasion, but evasion legitimately exercised by consumers or users in selecting untaxed goods and services,

¹ The Finance Act, 1898, affords two additional opportunities for fraudulent evasion of income tax.

labour, instruments, and processes in preference to those taxed, or in risking possible losses or penalties by not employing stamped or otherwise taxed forms, instruments, or services.

M. Henry Passy's fifth tax maxim was aimed against this legitimate tax evasion; his principle, as I have recently noticed, being that "a tax ought not to offer to those it affects a possibility of escaping the operation of the impost" (p. 215).

In tax administration this maxim, so far as it applies, practically recognises and confirms the truth of the principle embodied in Canon 3—the "Universal Tax Liability of all Accumulated Material Wealth in a Tax Area."

There can be little doubt that the prosecutions, penalties, and punishments imposed for offences against the revenue laws, and provoked by exceptional, unfair, and burdensome taxes and tax rates cause very considerable losses to the general community in the different ways described in detail in the preceding part of this work.¹ Every exemption from taxation of a naturally and equitably taxable object, every differential tax rate, every excessive disproportional tax rate, provokes such offences, and tends to swell the cost of revenue collection, and to reduce economy in material and other forms less easily measured or estimated.

§ 115.—(Maxim 5) Holders of Taxable Property to be Primarily Liable for Taxes thereon, but entitled to recover from the Legal Owners Taxes paid on Property of which they were only the Bailees, Trustees, Occupiers, or Hirers

THIS administrative maxim was first introduced and brought into practical use by British fiscal authorities, and, as a matter of convenience in revenue collection, can scarcely be over-rated; and the trouble entailed on the primary tax-payers, as far as the rule has been carried into practice, is but small, and the risk to them in recovering the tax quite inconsiderable. Foreign nations are now introducing the principle in their fiscal arrange-

¹ "Wrongs," p. 19. Lond. 1888.

ments to simplify tax collection. The collection of Income Tax under Schedule A is the best known example of the practice in this country.

The maxim in no way invalidates the natural principle that owners of property should pay for the services rendered by Government in protecting and otherwise benefiting it and maintaining its value; it simply enables the principle to be carried out more easily in practice. That natural principle was well put by Pollard-Urquhart in his "Dialogues on Taxation." He wrote: "It has always appeared to me that, as a matter of principle, taxes should be paid directly by those who get most from them, *i.e.* those who are most immediately and personally interested in the efficient management and improvement of the property of the country. For, after all, taxes, if properly spent, are nothing more than a part of the necessary outgoings for the management and improvement of property. . . . The owner will take care that he gets his money's worth for all that he pays, either for the steward's wages, county rates, or imperial taxes. He ought to have as keen an eye to the accounts of the Chancellor of the Exchequer, and the Treasurer of his County, as to those of his steward and bailiff. He should no more think of asking those who have charges on his estate, whether in the shape of annuities, tithes, or head rents, to contribute to the expense of governing it, than he should of asking them to pay part of his steward's wages, or of his outlay for building and improvements."¹ The principle, of course, applies to other kinds of property besides that invested in land.

§ 116.—(Maxim 6) Owners and Holders of Taxable Property justly entitled to know Total Value of, and Tax Assessed on, Property of other Tax-payers of same Locality

THIS maxim springs inferentially from Adam Smith's second maxim respecting "Certainty" in taxation. The portion of the maxim referred to runs thus: "The quantity (of tax) paid

¹ "Dialogues on Taxation" (between "Oxford" and "Cambridge"), p. 132. Aberdeen, 1867.

should be clear and plain to the contributor, *and to every other person.*" The Hon. Amasa Walker, alluding to the clause above italicised, observed: "What one does not pay another must. If A pays less than he should, B and C must pay more; hence the right of every man to know not only what he pays, but what his neighbour does, otherwise how can he judge whether he is over-taxed or not?"¹

In England the old Tenths and Fifteenths taxing system provided a somewhat similar kind of check on assessments by associating neighbours as assessors. Official assessment is naturally found from experience more satisfactory, but some concurrent independent check on assessments, of the kind suggested in this maxim, is certainly desirable, whether regarded from the taxpayers' or the fiscal authorities' point of view.

In the United States, where a stricter rule is enforced, and assessment lists are published, **property** is the basis of assessment. The publicity is found useful to the revenue authorities, as well as to other public and private interests—for example, to principals in checking their agents' tax payments as bailees of stock held by them—but were such an administrative rule applied to taxes on **income and profit** it would prove most objectionable, as tax-payers—business men especially—have the strongest dislike to disclose particulars of their profits, their amount, if large, inciting competition, or otherwise injuriously affecting their interests.

The same cannot be said in respect of publicity concerning a man's wealth, for how much may belong to him, how much to others, and what wealth he may possess in other places, are facts usually unknown to all but his intimates, sometimes not to them; and considerations like these have probably led men to be less reticent about their wealth than their profit or income.

To inquire into a citizen's income, or profits, is no more a government's legitimate business than it is that of any ordinary private individual; but knowledge respecting the amount of wealth and value held in particular localities and premises is to

¹ "Science of Wealth," pp. 308-10, by Professor Walker, Lecturer on Public Economy, Mass. Boston, U.S., 1866.

some extent a public duty and administrative necessity in regard to police provision and other precautionary measures, often irrespective of their legal ownership.

Restricted to information regarding accumulated wealth and property, including that in lands, mines, etc., over which absolute rights of ownership are claimed by private individuals or associations, and with limitations perhaps in respect of information about assessments in other localities, this administrative principle seems valuable, and would certainly tend to promote accuracy and truthfulness in assessment.

§ 116a.—Other Maxims, and Remarks thereon

THERE are some minor administrative principles which scarcely seem important enough to rank as maxims, such as "Elasticity in taxes or taxation," which I would define as the power of easily increasing or reducing the product of a tax, or taxes, to any required degree. It is really a detail in tax administration, easily arranged, and involving no large principle if the fiscal system be reasonably sound and practical. It can be attained by reducing or increasing taxation by percentage, as well as by fractional tax rates; by improving the accuracy of assessments or valuations undercharged or overcharged; and, for smaller financial adjustments of means to ends, by excluding or including fractions in the total claims on tax-payers, and even in the taxable bases of assessments. A tax or tax system that will not permit of such limited contraction or enlargement must be faulty indeed, though recourse may even in such case be had to reductions or increase of cash balances to make ways and means correspond.

I need not enter into the cameralistic principles affecting the collection, custody, issue, control, and audit of the taxation imposed, the detailed arrangements for these purposes in the United Kingdom being, perhaps, as perfect and satisfactory for securing the public revenues from leakage as those of any European fiscal (treasury or exchequer) department, though the account, control, and audit business, including publication thereof in official returns, seems to call for greatly increased dispatch, especially as regards local finance.

The principles here set forth are applicable to local as well as to central and imperial taxation, and to the territorial divisions of England, Wales, Scotland, and Ireland, as well as to our Colonies and Dependencies wherever situated.

§ 117.—Economic Relations between Insurance Premium Incomes and Taxation

CONSIDERATION of these incomes was reserved till I had dealt specifically with Taxation, some analogies between them requiring notice.¹

The premiums paid by insurers for providing against partial or total loss of property, loss of life, sickness, injury, etc., though not usually compulsory, resemble in some respects taxation paid for Government services rendered, but the latter are mainly for securing *general* protection to all subjects alike, and exceptionally only, and within very limited bounds, for compensating losses caused by lack of public protection. Private insurance associations, however, accept as their leading principle responsibility for compensating insurers for losses, and only indirectly, by subscriptions to fire brigades, etc., do they protect insurers from damages by fire, indeed these subscriptions are mere self-protective measures.

So closely allied in some matters, however, are the interests of Government and the insurance offices, that it seems clear that by mutual aid and concessions their several interests might be much promoted, and those of the general public also. Government, by requiring and aiding public enquiries into causes of fires, doubtful deaths, etc., by promoting insurances in private offices, by gradually transferring to them their own insurance business (often conducted at a loss), and by remitting the trifling taxes on insurances, might promote the interests of all concerned. On the other hand, the insurance offices might accept public control and audit, much needed in some matters, and might aid Government respecting values of insured property, etc., both conducing to public security and economy.

¹ See § 34, p. 88,

Much the same may be said of the relations between Government and the banks, which render useful aid to Government in Income Tax deductions, etc., and in return might well be relieved of special taxes on their business, their documents, and note issues; and the public savings-banks business (conducted by Government at a loss), might with advantage be transferred to bankers, who, on the other hand, might well accept public control and audit as to unclaimed deposits, balances, etc., very desirable for the general advantage.

§ 118.—Concluding Remarks

THOSE who have attentively followed my treatment of the rights of tax-payers, and considered the opinions of the economic and financial authorities quoted, will have perceived (even before my remarks in §§ 108 and 111), that my object is a Property Tax. The principles advanced in these canons and maxims, taken together, are at once consistent with a property tax, and opposed to income and expenditure taxes, to any oppressive land tax, and to any mixed system of taxation.

The fact that all the tax principles here advocated tend to simplify tax administration seems to me to indicate that a sole property tax is the true fiscal method; careful consideration will further show that a rightly assessed property tax, with the needful exemptions lately noticed, must also act as an income tax, falling with more equitable incidence than any such tax now in force, on the relative net revenues of all tax-payers, and at the same time act as an expenditure and consumption tax, fairly proportioned to the spending power or ability of tax-payers, whilst every kind of accumulated wealth, above some fixed limit, would be charged with its fair proportion of the general taxation, its owners being rightly chargeable with the cost of its public protection, central and local. Foreign produce would then be equally taxed with British produce, and *not enjoy, as now, special exemption*, a complaint certainly containing some elements of truth.

I have computed that under a sole property tax the ultimate tax rate of all commodities and other tax objects could not, at

present public expense, exceed $1\frac{1}{2}\%$ for imperial taxation values, and less than 1% for local taxation values, very different to the existing tax rates of from 15 to 1850% on a few articles of consumption and property in general use, and assessed so as to fall most heavily on the poorer classes of consumers or users. The average tax rate on property in the United States, where Customs Duties chiefly maintain the small army and navy ordinarily employed, was \$1.85 % in 1888-89.

Only by a Property Tax framed on some such principles as the above can any truly equitable allocation of taxation, expenditure, and relative benefit, be effected, and the Reports of the Royal Commissioners on the Financial Relations of Great Britain and Ireland seem thoroughly to confirm and strengthen this view, for our mixed system of unequal taxes and tax rates on certain incomes and expenditures only, and the application of so much of the taxes and rates for the particular advantage of special districts and classes appear to have created utter confusion touching the questions—whether the great territorial divisions of this Kingdom are being charged with their proper share of the public expenses incurred, and are obtaining their due proportional share of the benefits of the public services. From the separate Reports of the Royal Commissioners, and the evidence given before the Commission, the inference is clear that the Irish civil expenditures are excessive, and that certain classes in the United Kingdom, *not in Ireland only*, are largely over-taxed under the present system.

It may be perceived in course of time that a general Property Tax is the only true Right and Remedy for these financial and fiscal wrongs; the usual parrot cry of the impossibility of assessing a general Property Tax would of course arise, but the middle and working classes are beginning better to understand these matters now, and will accept excuses of the kind for what they are worth. As the Jupiter of the London Press once expressed itself:¹ “The word ‘impossibility’ in these days is beginning to lose its terror,” and with the nation and an energetic minister of finance insisting on the needful administrative measures for the purpose, the powerful organisation of

¹ *Ante*, p. 187,

the Revenue Departments would quickly adapt itself to the demand, and with the aid of the insurance offices and banks, now so multiplied throughout the Kingdom, would soon prove that there was no inherent difficulty in such assessment, provided the central and local powers acted together and adopted the requisite measures to secure proper control over it.

The Revenue officials, who urged before the Hume and Hubbard Commons Committees of 1852 and 1861-62 the impossibility of substituting a Property for an Income Tax, have now probably retired, and their successors may not be so ready to suggest difficulties in view of the modern facilities for obtaining and publishing particulars about wealth and values.

As Stephen Dowell has shown, "a portion of the assessed wealth of the Kingdom"—in other words, a property tax—was the principle of taxation in England for nearly four hundred years, and his description in his "History of Taxes and Taxation in England" of the uninstructed tax-payers instinctively clinging to the last to this equitable principle, impaired though it was by fixed assessments, administered by revenue officials completely under the thumb of legislators, representing all but exclusively the interests of powerful and wealthy landlords, is almost pathetic. Is it not possible to return again to that grand old principle; is there no coming young statesman to take up this righteous policy, and carry the nation with him in his task of inscribing the needful laws on the Statutes of the Realm?

In conclusion, it may be well to notice an argument sometimes used by tax administrators, and even by writers on taxation, in deprecating changes in a tax system. It is urged that a tax system, though unjust at the outset, gradually settles down by the action of tax diffusion and compensation into tolerable practical fairness, and that to disturb such conditions would really do more harm than good by unsettling economic relations.¹ But it seems far more likely, from the facts and experiences of fiscal history, that a tax system may sink into a method inflicting grave injustice on particular classes and

¹ This argument has in some measure been answered in §§ 77, 78, pp. 151-9, on Tax incidence and its diffusion.

individuals, and that the argument in other respects is not one for total inaction, but merely for the necessary corrective measures being introduced *gradually, and with circumspection*, the most favourable time for the purpose being one of retrenchment in public expenditure.

APPENDIX

APPENDIX—A (See p. 2)

Political Economy, a Science

SOCIOLOGY—which for present purposes may be broadly termed the science of the best development of human societies—has close and constant relations with Economics, Ethics, Politics, Statecraft, and other social sciences.

As associated with Economics—the science of wealth and values—and with Mathematics, it deals with the notation and measurement of wealth and value, with their production, sharing or division, exchange and circulation, and consumption or use. Based as a science on many unswerving natural laws, it has, to some extent, acquired the character of a precise and rigid science.

In further relation with Ethics—the science of human conduct—we find some modification and relaxation of the stern laws of economy; men's conduct as individuals, as members of a family, of an association, of a nation, and of the general community of nations and the entire human race, being considered, and their moral obligations and liabilities as such recognised.

In further conjunction with Politics and Statecraft—the sciences of governing men and nations—more powerful and permanent spheres of action and influence become involved, present acts as entailing future consequences, and the experiences of the past, as recorded in history and statistical and other public records, become fraught with added importance and utility.

Political or State Economy—that is, Economics in relation to the government of men and nations—especially needs the humanising influences of Ethics among the other social sciences with which it necessarily comes into constant contact and conditions of mutual interdependence.

A science aims at and requires generalisations, rejecting mere individualities, and Political Economy is but a systematised

collection of generalisations, axioms, or maxims, founded on observations and experiences of that branch of Economics dealing with the phenomena of the wealth of nations or communities. It is then a distinct branch of the more inclusive study of Sociology or Social Science.

The late Professor Stanley Jevons, M. Walras, and other economists of his school, in treating Political Economy as a mathematical science, have largely applied its methods and formulæ to illustrate their arguments; but however useful this treatment has proved—and undoubtedly it has much conduced to accuracy and precision in the statement of facts and arguments—yet it is only applicable to a limited extent, for, from the infinite number and variety of the phenomena, or facts, included in the inquiry, some of which are quite incapable of exact or practical measurement or statement, and from the impossibility of compassing and verifying all the factors in the social problems needing solution, there appears insufficient basis on which to found Political Economy as a concrete Mathematical science. From several causes—notably the imperfect character of national accounts—registers of financial and statistical facts are very defective, and must so continue till less indifference is shown by statesmen and legislators as to the advantage of more general and comprehensive public and private records of facts and transactions useful in legislation and other kinds of business. In the absence of such there appears no substantial foundation on which to erect Political Economy as an exact science.

Professor Cairnes and the “Logical” school of economists have again sought to constitute Political Economy as a science based on correct reasoning. This also, as a specific general method, does not seem quite satisfactory, for the laws of the science enter minutely into, and influence, the daily life of all citizens, and it is hopeless to expect logical arguments and inferences will much affect general public opinion on social problems in which the uneducated masses, knowing little or nothing of deductive or inductive methods of reasoning, have from their point of view as important rights, interests, and liabilities as the better informed minority. Besides, how often has it happened that political and social measures—framed

apparently with the strictest regard to logical method and causation—have signally failed under the crucial test of actual experience (that great discriminator of truth and error), and have provoked general discontent and opposition, owing to some important outside influences having escaped attention, some natural human tendencies or sentiments having been disregarded, or some mode of evading legal obligations overlooked. But the Logical school has been distinctly useful in promoting clearness of definitions and terms in the science, and order and natural sequence in the investigation of its phenomena.

Outside these two methods come those of Communism and so-called Socialism, and modifications of them, represented in the fanciful systems of Messieurs Bonnot de Mably, Babœuf, St Simon, Fourier, Proudhon, Rodbertus, Robert Owen, Ferdinand Lassalle, Karl Marx, F. Engels, etc., and their later representatives, who endeavour to discredit individualism, or self-interest, as a permanent motive power in society, even though aware that development of associated enterprise and class interests in public and private matters is usually allowed free play side by side with it.

Beside the "Mathematical" and "Logical" schools is now growing up the "Historical" method, which may also be termed the "Statistical," the "Business Experience," and the "Comprehensive" method, relying on clearly defined and accurately recorded facts as far as they are yet attainable, but using also the Mathematical and Logical methods, and depending largely on the prudent inferences of experienced men, whose broad interests lead them carefully to note the results of certain lines of action and conduct, and the practical outcome of the different public and private institutions, laws, and customs of their country. This system should meet the requirements of the Positive school, which insists on undoubted facts for the basis of a science. As Professor Amasa Walker has happily remarked: "The constancy of nature, and the permanence we attribute to the created world, are a foundation sure enough to build upon," and are instanced "in (1) mankind's wants or desires, in (2) mankind's efforts or labour to satisfy them, and in (3) the satisfaction or wealth, the result of such wants and efforts."¹

¹ "Science of Wealth," Introductory Chapter. Boston, U.S., 1866.

Our national statistics, such as they are, lend some aid to this method of research, but independent experience and trained observation are also important factors, and, above all, sound judgment and common sense to interpret and practically apply these recorded facts, observations, and experiences, and to estimate aright their relative value and importance among all the other elements of a given social problem.

As fair exponents of this "Inclusive" or "Comprehensive" school, I may mention the late Professor Bonamy Price, of Oxford University, who particularly represents the business-experience and common-sense view (though he questions the right of Political Economy to be termed a science); Professor Alfred Marshall, of Cambridge University, who especially draws attention to the interests of Labour; and M. Leroy Beaulieu, of Paris, who takes what may be called the strictly orthodox view of the science. Though differing in opinion in some important respects, these writers may be said fairly to represent the "Comprehensive" school, and to regard Political Economy as founded on man's experiences of human nature, and the other animate and inanimate elements and forces surrounding him, in reference to the most simple and accurate notation and measurement of wealth and value, their most economic production, their fairest sharing or division, their most perfect freedom of exchange and circulation, and their wisest use or consumption, in their ever-changing forms, material or immaterial, public or private, individual or collective, and in respect of the laws, institutions, and customs affecting and regulating them and those dealing with them.

This definition accords nearly enough with that of Professor Cairnes, perhaps the most comprehensive of any laid down by British writers; he terms it: "The science which—accepting as ultimate facts the principles of human nature, and the physical laws of the external world, as well as the conditions, political and social, of the several communities of men—investigates the laws of the production and distribution of wealth resulting from their combined operation;" or, as he further more succinctly puts it, "the science which traces the phenomena of the production and distribution of wealth up to their causes in the

principles of human nature, and the laws and events physical, political, and social of the external world.”¹

Political Economy, then, may be termed—the science of increasing the quantity and value of material and immaterial wealth for the advantage of mankind, with the least possible waste of mental and bodily effort, or of material wealth. As M. Emile de Laveleye has in other words said: “It is the science which determines what laws men ought to adopt in order that they may, with the least possible exertion, procure the greatest abundance of things useful for the satisfaction of their wants, may distribute them justly, and consume them rationally.” He applies to Political Economy Bossuet’s definition of Politics: “That their true end is to make life easy and nations happy.”

Amasa Walker calls Political Economy “the Science of Values”;² and by concentrating in the word “Values” a very wide significance, this would certainly be the briefest definition possible.

Touching the subordinate question of the distinction between Science and Art as regards Political Economy, Taxation, etc., the province of science would seem, by thorough study of a subject in its various relations and bearings, to evolve and establish the leading principles, axioms, and natural laws or tendencies governing its static or dynamic conditions and influences, while the province of Art appears to be to apply such established general laws and tendencies to particular cases, modifying them and adapting them to circumstances of time, place, and special environment; in fact, it is Applied Science—the natural sequence of the construction of a concrete or Positive Science.³

¹ “The Character and Method of Political Economy,” p. 57. Lond. 1875.

² “Science of Wealth,” Introductory Chapter. Boston, U.S., 1866.

³ Since writing the above, I have seen Mr J. N. Keynes’ work, “The Scope and Method of Political Economy,” which establishes, with far more detailed arguments and facts than I could use here, the right of Political Economy to be called a positive science. Mr Keynes considers the “Historical” and “Statistical” methods as separate schools, and perhaps rightly, though I am inclined to view them as merely additions to the “Comprehensive” or “Inclusive” method now developing, which employs all collateral means of establishing its reasonings and conclusions.

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B (see p. 209)

Further Quotations from Authorities opposed to Income as a Tax Basis

up back
M. J. B. Say wrote: "The difficulty of getting at a man's true revenue, either from himself or by the valuation of his lands and premises, would be insuperable."¹

condemned
Mr George Holloway wrote: "An Income Tax occasions more fraud and deceit than could possibly result from any other mode of collecting revenue, offering, as it does, a positive premium on immorality and dishonest cunning, which are so extensively practised under the system in our own day as to become almost justifiable, since not to practise them is to defraud oneself; so that those who live on industrial incomes are placed by an Income Tax in this dilemma. They must be either fools or knaves, for if they pay tax upon their full income they most certainly pay upon more than their fair share—to the advantage of the less scrupulous, who profit by their honest simplicity—and are fools in the management of their resources; whilst, if they pay on less than their true income, they are knaves by all the laws of common honesty, and amenable to God for fraud upon their Government. It is no exaggeration to say that the charge upon industrial incomes (for income tax) is lowering the moral standard of Englishmen to an extent truly lamentable, destroying truth and integrity in tens of thousands by insuring a certain reward to dishonest returns—that is, at one and the same time placing an encouragement on vice and a ban upon virtue.

"An Income Tax can never be equitably levied in any nation, inasmuch as the first principles of equity are inapplicable to it. There is no legislative machinery that can be found to apply to an indefinable, invisible supposition such as income."²

Mr J. Stuart Mill, after showing the impossibility of cor-

¹ Quoted in Pollard Urquhart's "Dialogues on Taxation" (1862), p. 42.

² "Civilisation, Taxation, and Representation," pp. 109-11. Lond. 1867. In connection with the above, see "Inland Revenue Reports on Frauds on the Revenue from Income Tax not properly returned for Assessment," for 1869, p. 19, and for 1870, p. 29.

rectly assessing the most fairly devised Income Tax, observed : "The Income Tax, therefore, on whatever principle of equality it may be imposed, is in practice unequal in one of the worst ways, falling heaviest on the most conscientious. It is feared, therefore, that the fairness which belongs to the principle of an Income Tax cannot be made to attach to it in practice, and that this tax, while apparently the most just of all modes of raising a revenue, is in effect more unjust than many others, which are, *prima facie*, more objectionable." ¹

Dr W. Farr wrote: "The revenues of different classes of the community are the produce of different kinds of property, and the uniform tax on this product—called income—is neither proportional to the profit, property, or ability of the tax-payer. . . . I have proved, I think, that the tax called a tax on profits is, as it is levied, a tax on income—a tax rated on the profit of one class, on the produce of another class, and, therefore, unjust and inequitable." ²

The writer of the Article "Taxation," in **Ripley and Dana's "American Cyclopædia,"** referring to the want of proper equality in the taxation of different incomes, remarks: "To make the principle of equality just in all cases, other than pecuniary returns must be had in view, and the standard of taxation must embrace something beyond income." ³

Dr Thorold Rogers wrote: "Whenever the tax is one on income, it will always be the case that some kinds of property will enjoy a partial, others an absolute, exemption from taxation." ⁴

M. Ambrose Clement wrote: "It is very doubtful whether an income tax is less onerous than taxes on commodities, or more equitable in its incidence." ⁵

¹ "Principles of Political Economy," pp. 422-25. Lond. 1865.

² *Statistical Society's Journal* (1853), pp. 5, 10. Article—"The Income and Property Tax."

³ Ripley and Dana's "American Cyclopædia," vol. xv. p. 588. Article—"Taxation." New York, 1876.

⁴ *Statistical Society's Journal* (1865), p. 246. Article—"Definition of the word Income."

⁵ "Dictionnaire Général de la Politique," p. 40. Article—"Impôts." Paris, 1874.



C (See p. 211)

Adam Smith's Four Tax Maxims, with his Comments thereon. "Wealth of Nations," 1811 Edition, Book V. chap. ii. p. 260

"(1) The subjects of every State ought to contribute towards the support of the Government, as nearly as possible in proportion to their respective abilities—that is, in proportion to the revenue which they respectively enjoy under the protection of the State. The expense of Government to the individuals of a great nation is like the expense of management to the joint tenants of a great estate, who are all obliged to contribute in proportion to their respective interests in the estate. In the observation or neglect of this maxim consists what is called the equality or inequality of taxation. Every tax, it must be observed once for all, which falls finally upon one only of the three sorts of revenue above mentioned (rent, profit, and wages) is necessarily unequal, in so far as it does not affect the other two. In the following examination of different taxes I shall seldom take much further notice of this sort of inequality, but shall in most cases confine my observations to that inequality which is occasioned by a particular tax falling unequally upon that particular sort of private revenue which is affected by it.

"(2) The tax which each individual is bound to pay ought to be certain, and not arbitrary. The time of payment, the manner of payment, the quantity to be paid, ought to be clear and plain to the contributor, and to every other person.

"Where it is otherwise, every person subject to the tax is put more or less in the power of the tax-gatherer, who can either aggravate the tax upon any obnoxious contributor, or extort, by the terror of such aggravation, some present or perquisite to himself. The uncertainty of taxation encourages the insolence and favours the corruption of an order of men who are naturally unpopular, even where they are neither insolent nor corrupt. The certainty of what each individual ought to pay is, in taxation, a matter of so great importance, that a very considerable degree of inequality, it appears, I believe, from the experience of

all nations, is not near so great an evil as a very small degree of uncertainty.

“(3) Every tax ought to be levied at the time, or in the manner, in which it is most likely to be convenient for the contributor to pay it. A tax upon the rent of land, or of houses, payable at the same term at which such rents are usually paid, is levied at the time when it is most likely to be convenient for the contributor to pay, or when he is most likely to have wherewithal to pay. Taxes upon such consumable goods as are articles of luxury are all finally paid by the consumer, and generally in a manner that is very convenient for him. He pays them by little and little, as he has occasion to buy the goods. As he is at liberty, too, either to buy, or not to buy, as he pleases, it must be his own fault if he ever suffers any considerable inconvenience from such taxes.

“(4) Every tax ought to be so contrived as both to take out, and to keep out, of the pockets of the people as little as possible over and above what it brings into the public treasury of the State. A tax may either take out, or keep out, of the pockets of the people a great deal more than it brings into the public treasury, in the four following ways: First, the levying of it may require a great number of officers, whose salaries may eat up the greater part of the produce of the tax, and whose perquisites may impose another additional tax upon the people. Secondly, it may obstruct the industry of the people, and discourage them from applying to certain branches of business which might give maintenance and employment to great multitudes. While it obliges the people to pay, it may thus diminish, or perhaps destroy, some of the funds which might enable them more easily to do so. Thirdly, by the forfeitures and other penalties which those unfortunate individuals incur, who attempt unsuccessfully to evade the tax, it may frequently ruin them, and thereby put an end to the benefit which the community might have received from the employment of their capital. An injudicious tax offers a great temptation to smuggling. But the penalties of smuggling must arise in proportion to the temptation. The law, contrary to all the ordinary principles of justice, first creates the temptation, and then punishes those who yield to it; and it commonly enhances the punishment, too, in pro-

portion to the very circumstance which ought certainly to alleviate it, the temptation to commit the crime. Fourthly, by subjecting people to the frequent visits and the odious examination of the tax-gatherers, it may expose them to much unnecessary trouble, vexation, and oppression; and though vexation is, not strictly speaking, expense, it is certainly equivalent to the expense at which every man would be willing to redeem himself from it. It is in some one or other of these four different ways that taxes are frequently so much more burdensome to the people than they are beneficial to the sovereign.

“The evident justice and utility of the foregoing maxims have recommended them, more or less, to the attention of all nations. All nations have endeavoured, to the best of their judgment, to render their taxes as equal as they could contrive, as certain as convenient to the contributor, both in the time and in the mode of payment, and, in proportion to the revenue which they brought to the prince, as little burdensome to the people.”

D (See p. 212)

Summarised Views of certain well-known Austrian and German Economists on “Ability to bear Taxation”

Adolph Wagner says: A person's ability to bear taxation consists in his ability to work, and in his opportunity of turning his labour to practical account, in the nature and amount of the income derived from his labour; further, in his property, its nature and amount, and in the amount of income derived therefrom. The two groups combined furnish the solution.

Lorenz von Stein considers it to be the amount which a net income can contribute to Government without interfering with the subject's economic development.

Hans von Scheel takes it to be the income on which taxation can be levied with due regard to the tax-payer's subsistence.

A. E. F. Schäffle views it as an expression signifying how much a tax-subject can contribute towards the support of Government, as determined by the Budget, without reducing the proportional means of providing for his own needs.

The above statements are quoted by **Dr R. Meyer** in his

work "Die Principien der Gerechten Besteuerung," p. 183, Berlin, 1884. He also quotes (p. 182) the opinion of **D. F. Seeger** (1810): "Contributory ability consists in the proportion between the clear or net annual income of the taxee and his absolute needs."

E (*See p. 225*)

M. De Turgot on the Exemption of the Privileged Classes—the Nobility, Clergy, etc.—from the Territorial Tax proposed in place of the Corvée Tax ¹

"QU'EST-CE que l'impôt? Est-ce une charge imposée par la force à la faiblesse? Cette idée serait analogue à celle d'un gouvernement fondé uniquement sur le droit de conquête. Alors le prince serait regardé comme l'ennemi commun de la société; les plus forts s'en défendraient comme ils pourraient, les plus faibles se laisseraient écraser. Alors il serait tout simple que les riches et les puissants fissent retomber toute la charge sur les faibles et les pauvres, et fussent très-jaloux de ce privilège.

"Ce n'est pas là l'idée qu'on se fait d'un gouvernement paternel, fondé sur une constitution nationale où le monarque est élevé au-dessus de tous pour assurer le bonheur de tous; où il est dépositaire de la puissance publique pour maintenir les propriétés de chacun dans l'intérieur par la justice, et les défendre contre les attaques extérieures par la force militaire. Les dépenses du gouvernement ayant pour objet l'intérêt de tous, tous doivent y contribuer; et plus on jouit des avantages de la société, plus on doit se tenir honoré d'en partager les charges. Il est difficile que, sous ce point de vue, le privilège pécuniaire de la noblesse paraisse juste.

"Si l'on considère la question du côté de l'humanité, il est bien difficile de s'applaudir d'être exempt d'impositions, comme gentil-homme, quand on voit exécuter la marmite d'un paysan.

"Si l'on examine la question du côté de l'avantage politique et de la force d'une nation, l'on voit d'abord que, si les privilégiés sont en très-grand nombre et possèdent une grand partie des richesses, comme les dépenses de l'État exigent une somme très-fortes, il

¹ Extract from Eugène Daire's "*Œuvres de Turgot*," vol. ii. p. 270, *seq.* Paris, 1844.

peut arriver que cette somme surpasse les facultés de ceux qui restent sujets à l'impôt. Alors il faut, ou que le gouvernement soit privé des moyens de défense dont il a besoin, ou que le peuple non privilégié soit chargé audessus de ses forces, ce qui certainement appauvrit bientôt et affaiblit l'État. Un grand nombre de privilégiés riches est donc une diminution réelle de force pour le royaume.

“Les privilèges en matière d'impositions ont encore un inconvénient très-préjudiciable aux nations, par la nécessité où ils les mettent d'adopter de mauvaises formes d'impositions pour éluder ces privilèges, et faire les privilégiés sans qu'ils s'en aperçoivent.

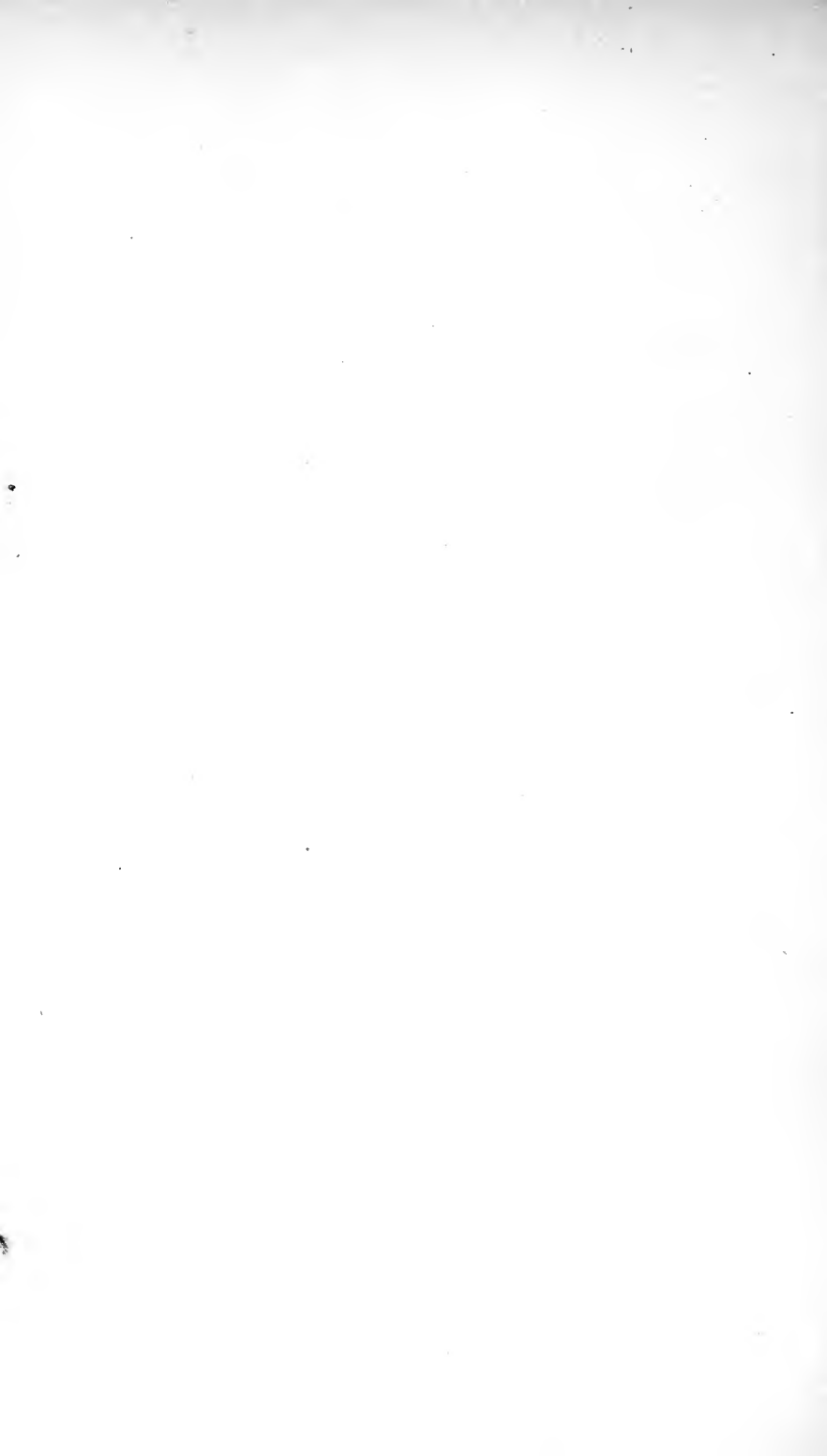
“C'est parcequ'on ne pouvait faire payer les nobles ni les ecclésiastiques, qu'on a fait payer leurs fermiers et leurs misérable métayers. De là tous les vices de la répartition de la taille et de la forme de son recouvrement qui se perpétuent, quoique tout le monde en connaisse les tristes effets. C'est pour éluder les privilèges qu'on a multiplié les droits sur les consommations et sur les marchandises; qu'on a établis les monopoles du sel et du tabac, si funeste par l'énormité de la somme qu'ils coûtent au peuple, pour ne procurer au roi qu'un revenu incomparablement plus faible; plus funeste encore par l'existence d'une nouvelle armée de contrebandiers et de commis perdus pour tous les travaux utiles, occupés à s'entre-détruire par les meurtres et par les supplices qu'occasionnent, d'un côté l'attrait de la fraude, et de l'autre la nécessité de la réprimer.

“Les privilèges ont produit ces maux. Le respect pour les privilégiés empêcherait à jamais qu'on ne pût y toucher: car comment supprimer la gabelle, comment supprimer le tabac, si le clergé, si la noblesse, qui payent l'impôt sur ces deux consommations, ne peuvent pas être assujettis à celui qu'on établirait en remplacement? Tout ce que je viens de dire est d'une évidente vérité, et n'est, j'ose le croire, contesté par personne qui ait réfléchi sur cette matière, sans avoir l'esprit occupé d'un intérêt personnel.”

M. Turgot then goes on to show with what judicious moderation these special privileges should be suppressed, together with the monopolies caused thereby, as public opinion was gradually formed, and the circumstances of the time made such reforms advisable and practicable.



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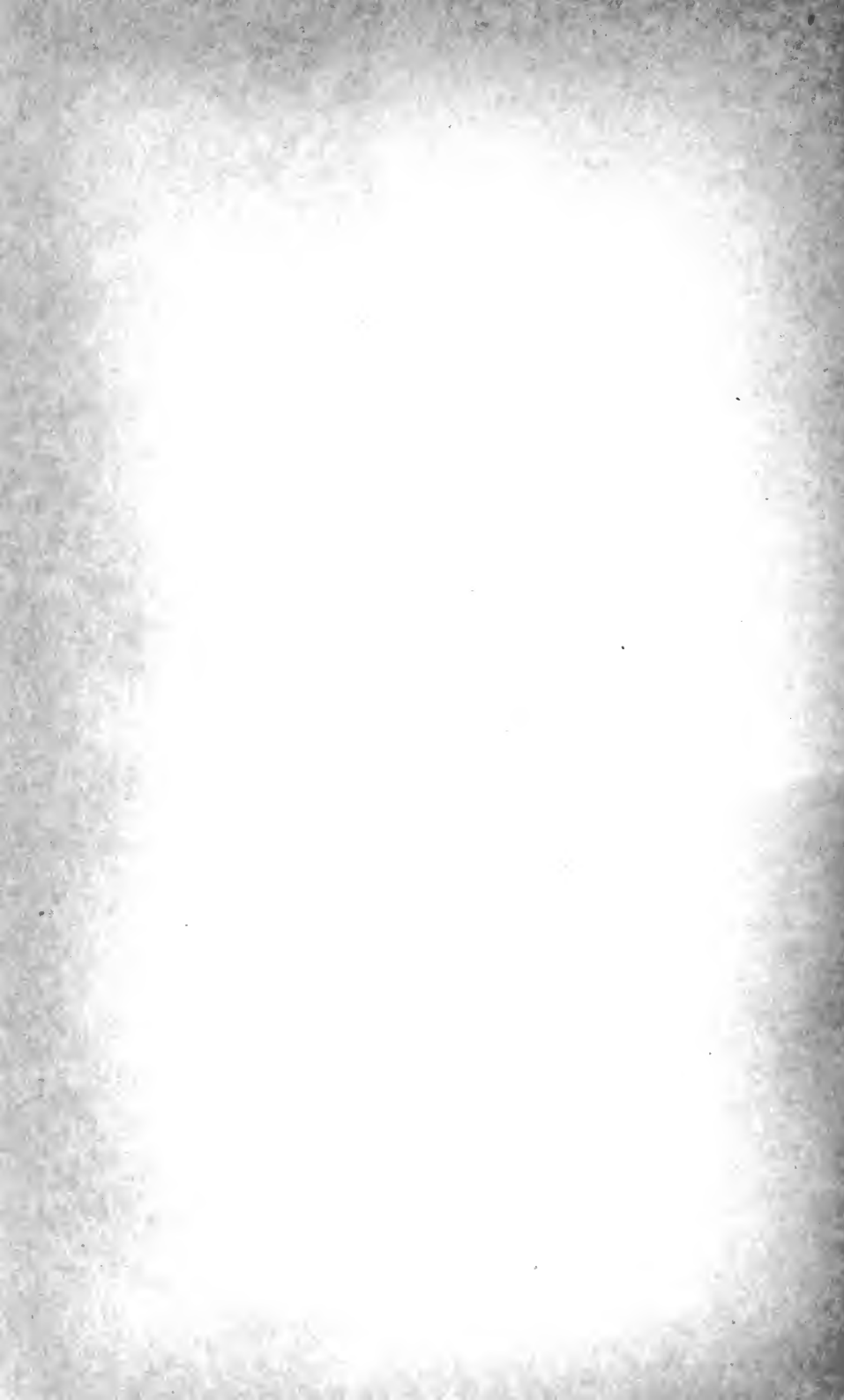
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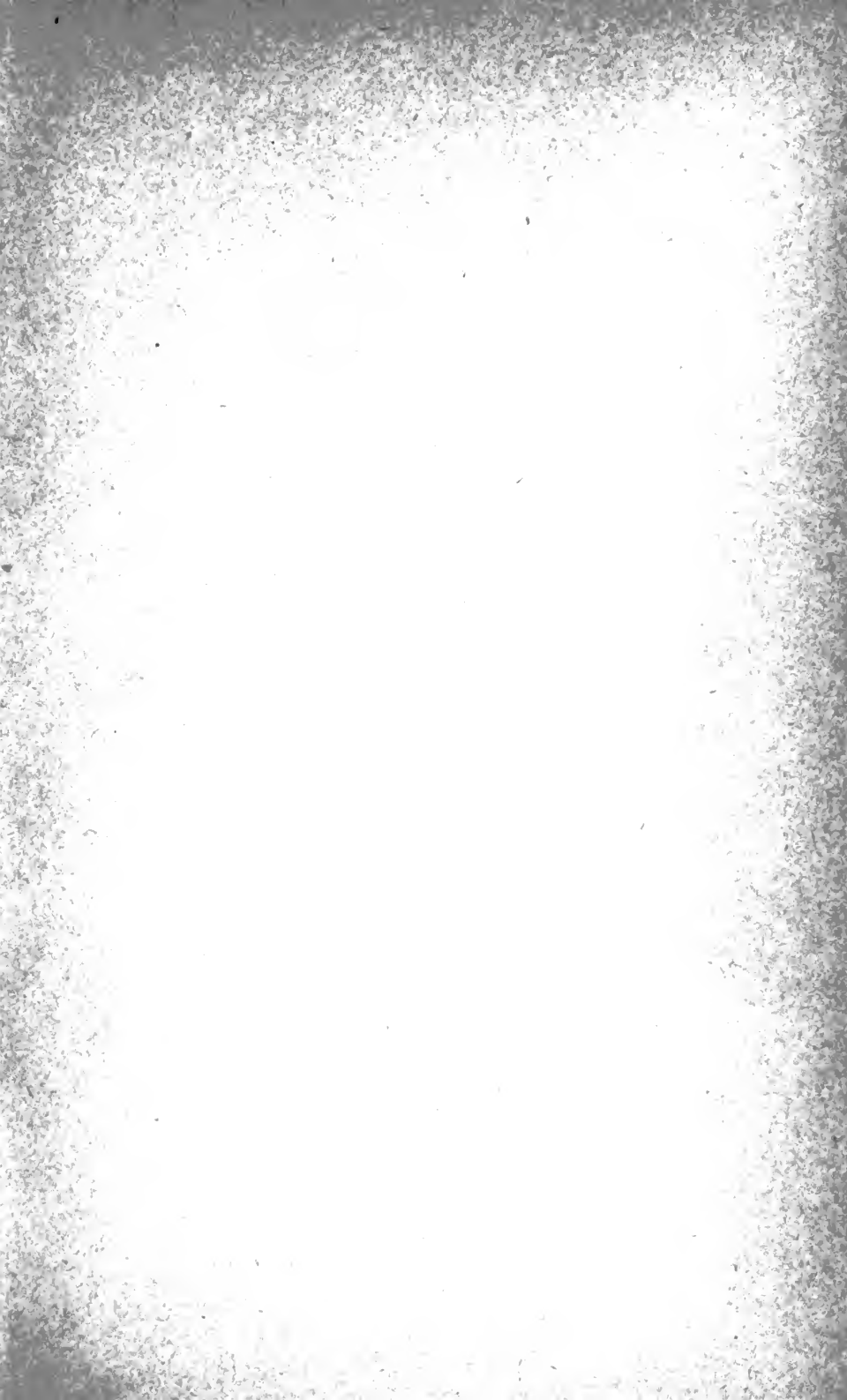
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